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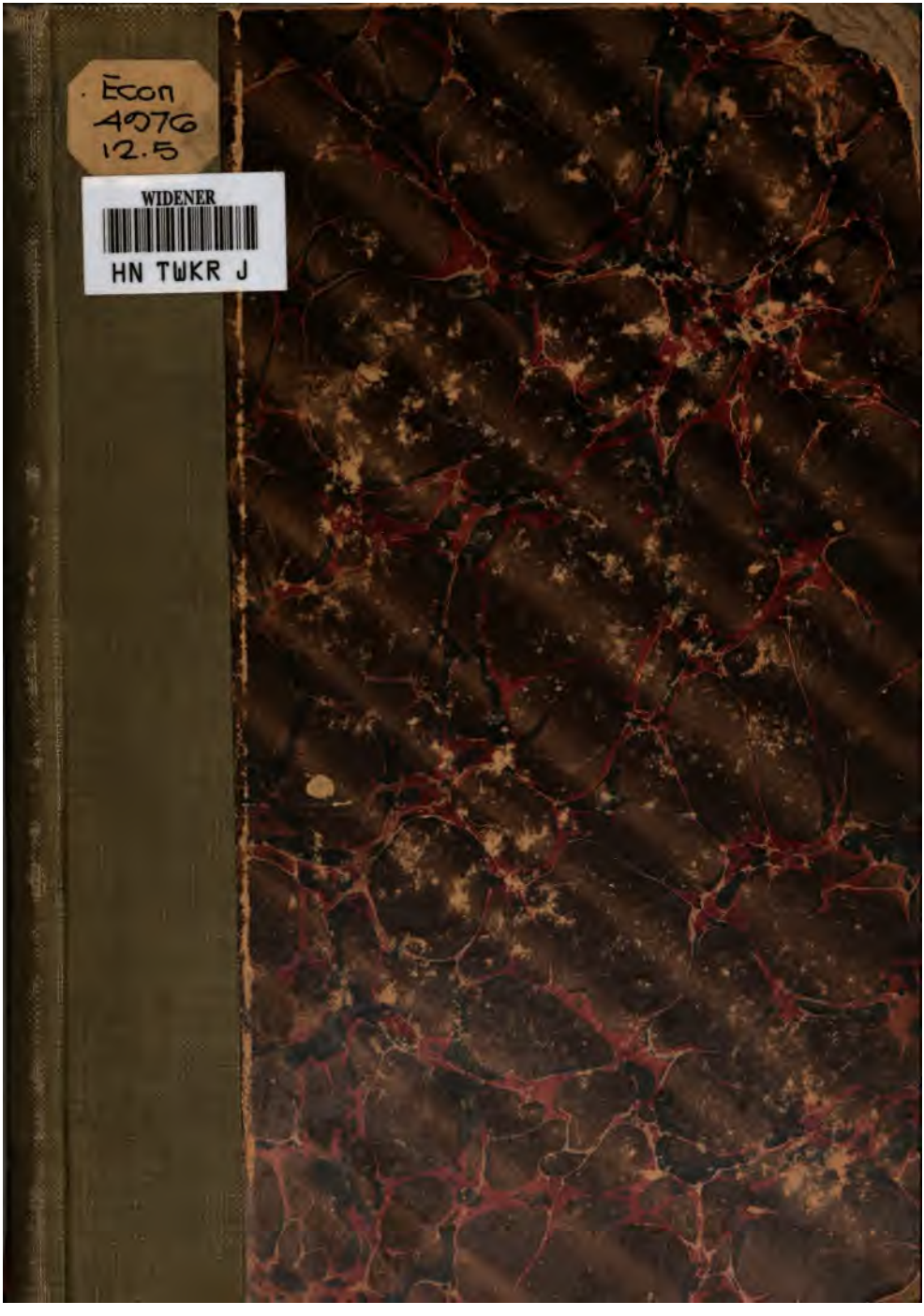
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GOVERNMENT INSURANCE OF BANK DEPOSITS

Reprint of Portions of Articles by Alexander H. Revell, Governor E. H. Hoch, James B. Forgan, Professor J. L. Laughlin, H. M. Zimmerman and Others

MATERIAL COLLECTED BY THE EXTENSION DIVISION OF THE UNIVERSITY OF WISCONSIN, F. A. HUTCHINS, SECRETARY DEPARTMENT OF DEBATING

EDITED BY

ROLLO L. LYMAN

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FOREWORD.

The Extension Division of the University of Wisconsin has collected material on a number of subjects suitable for public debates and discussions. The purpose is to loan this material to any literary or debating organization of Wisconsin, upon request made to the department. So many requests for assistance have come, however, that it has been thought wise to try the experiment of reprinting in a small volume, portions of the best articles which have been found upon the topics of most immediate interest. In this way only can the demand for material be met.

The subject which has been selected for the first booklet is Government Insurance of Bank Deposits, as this is one of the important issues in the campaign of 1908. In almost every instance, the articles, or portions of articles, included in this book, are reprinted with the express permission of the author. In the case of several of the newspaper articles, it has not been thought necessary to secure such permission.

The articles are grouped under three heads: I, General Conditions and Statistics; II, Arguments on the Affirmative; III, Arguments on the Negative.

Resolved, That Bank deposits should be guaranteed by the government; funds to be raised by taxing the banks on their deposits.

GOVERNMENT INSURANCE OF BANK DEPOSITS.

I. GENERAL CONDITIONS AND STATISTICS.

STATEMENT OF THE OKLAHOMA PLAN.

(Extracts from the Constitution of Oklahoma).

Article 2.

Section 1. The State Banking Board shall be composed of the Governor, the Lieutenant Governor, the President of the Board of Agriculture, State Treasurer and State Auditor. Said board shall have the supervision and management of the Depositor's Guaranty Fund, hereinafter provided for and shall have power to adopt all suitable rules and regulations not inconsistent with law, for the management and administration of same.

Section 2. The State Banking Board shall levy against the capital stock an assessment of one per cent of the bank's daily average deposits, less the deposits of the United States and State funds, if otherwise secured, for the preceding year, upon each and every bank and trust company organized or existing under the laws of this State, for the purpose of creating a Depositors' Guaranty Fund. Said assessment shall be collected upon call of the State Banking Board. In one year from the time the first assessment is levied, and annually thereafter, each bank and trust company subject to the provisions of this Act shall report to the Bank Commissioner the amount of its average daily deposits for the preceding year, and if such deposits are in excess of the amount upon which

one per cent was previously paid, said report shall be accompanied by additional funds to equal one per cent of the daily average excess of deposits less the deposit of state funds if otherwise secured and less the deposits of the United States government for the year over the preceding year, and each amount shall be added to the depositor's guaranty fund. If the depositor's guaranty fund is depleted from any cause, it shall be the duty of the State Banking Board in order to keep said fund up to one per cent of the total deposits in all of the said banks and trust companies subject to the provisions of this Act, to levy a special assessment to cover such deficiency, which special assessment shall be levied upon the capital stock of the banks and trust companies subject to this Act, according to the amount of their deposits as reported in the office of the Bank Commissioner. And such special assessment shall become immediately due and payable.

Section 3. Banks and trust companies organized subsequent to the enactment of this Act shall pay into the depositor's guaranty fund, three per cent of the amount of their capital stock when they open for business, which amount shall constitute a credit fund, subject to adjustment on the basis of its deposits as provided for other banks and trust companies now existing at the end of one year: Provided, However, said three per cent payment shall not be required of new banks and trust companies formed by the re-organization or consolidation of banks and trust companies that have previously complied with the terms of this Act.

Section 4. Any National Bank in this State approved by the bank commissioner may voluntarily avail its depositors of the protection of the depositor's guaranty fund, by application to the State Banking Board, in writing and the said application may be sustained upon terms and conditions in harmony with the purpose of this Act, to be agreed upon by the State Banking Board and the Bank Commissioner; Provided, That in the event national banks should be required by Federal enact-

ment to pay assessment to any depositors' guaranty fund of the Federal Government, and thereby the deposits in national banks in this State should be guaranteed by virtue of Federal laws, that the national banks having availed themselves of the benefits of this Act, may withdraw therefrom and have returned to them ninety per cent of the unused portion of all assessments levied upon and paid by said banks.

Section 5. Whenever any bank or trust company organized or existing under the laws of this State shall voluntarily place itself in the hands of the Bank Commissioner, or, whenever any judgment shall be rendered by a court of competent jurisdiction, adjudging and decreeing that such bank or trust company is insolvent, or whenever its rights or franchises to conduct a banking business under the laws of this state shall have been adjudged to be forfeited, or whenever the bank commissioner shall become satisfied of the insolvency of any such bank or trust company he may, after due examination of its affairs take possession of said bank or trust company and its assets, and proceed to wind up its affairs and enforce the personal liability of the stockholders, officers and directors.

Section 6. In the event that the Bank Commissioner shall take possession of any bank or trust company which is subject to the provisions of this Act, the depositors of said bank or trust company shall be paid in full, and when the cash available or that can be made immediately available of said bank or trust company is insufficient to discharge its obligations to depositors the said banking board shall draw from the depositor's guaranty fund and from additional assessments, if required, as provided in Section two, the amount necessary to make up the deficiency, and the State shall have for the benefit of the depositor's guaranty fund a first lien upon the assets of said bank or trust company and all liabilities against the stockholders, officers, and directors of said bank or trust company and against all other persons, corporations, or firms. Such liabilities may be enforced by the State for the benefit of the depositor's guaranty fund.

Section 7. The Bank Commissioner shall take possession of the books, records, and assets of every description of such bank or trust company, collect debts, dues, and claims belonging to it, and upon order of the District Court, or judge thereof, may sell or compound all bad or doubtful debts, and on like order may sell all the real or personal property of such bank or trust company upon such terms as the court or judge thereof may direct, and may, if necessary, pay the debts of such bank or trust company, and enforce the liabilities of the stockholders, officers, and directors: Provided, however, That bad or doubtful debts as used in this section shall not include the liability of stockholders, officers, or directors.

Section 8. The Bank Commissioner shall deliver to each bank or trust company that has complied with the provisions of this Act, a certificate stating that said bank or trust company has complied with the laws of this State for the protection of bank depositors, and that safety to its depositors is guaranteed by the depositors guaranty fund of the State of Oklahoma. Such certificate shall be conspicuously displayed in its place of busines and said bank or trust company may print or engrave upon its stationery and advertising matter words to the effect that its depositors are protected by the Depositors' Guaranty Fund of the State of Oklahoma. The printing or engraving of a false statement to the fact last before this named is hereby declared to be a felony.

Section 9. After the Bank Commissioner shall have taken possession of any bank or trust company which is subject to the provisions of this Act, the stockholders thereof may repair its credit, restore or substitute its reserves, and otherwise place it in condition so that it is qualified to do a general banking business as before it was taken possession of by the Bank Commissioner; but such bank shall not be permitted to re-open its business until the Bank Commissioner, after a careful investigation of its affairs, is of the opinion that its stockholders have complied with the laws, that the banks

credit and funds are in all respects repaired, and all advances, if any, made from the depositors' Guaranty Fund fully repaid, its reserve restored or sufficiently substituted, and that it should be permitted again to re-open for business; whereupon said Bank Commissioner is authorized to issue written permission for re-opening of said bank in the same manner as permission to do business is granted after the incorporation thereof, and thereupon said bank may be re-opened to do a general banking business.

Section 10. Any bank or trust company which has complied with the provisions of this Act shall be eligible to act as a depository of State funds, or any fund under the control of the State or any officer thereof, upon compliance with the laws of this State relating to the deposits of public funds.

ESSENCE OF OKLAHOMA PLAN.

Literary Digest 1908. Page 109.

"Its main provisions are that a State banking board, created for the purpose, shall have authority to levy on the capital stock of banks an assessment of 1 per cent. of the daily average deposits of each bank. The deposits of State funds in banks are exempt from levy. Should the guaranty fund thus provided become impaired through extraordinary drains, the board is empowered to levy special assessments in an amount sufficient to restore the fund to its minimum of 1 per cent. Banks organized in the future are to pay 3 per cent. of their capital to the fund when they begin business, and this assessment constitutes a credit subject to adjustment at the end of the year on the total of their deposits. In order that there may be no preference shown, National banks in the State may take advantage of the system on the same terms, but if, in the future, the Federal Government shall establish a guaranty fund for National banks, then 90 per cent. of the total of the assessment funds paid by such banks to the State shall be retained by them. . . .

STATEMENT OF SIMILAR PLANS.

Hon. H. M. Zimmerman. Address before Michigan bankers.

Oklahoma can scarcely be credited as being a pioneer in taking steps to work out the practicability of such a plan. For many years in Germany the savings of the people have been handled under a guarantee plan. The German municipalities guarantee all deposits in savings banks, and have it from the report of Consul Robert J. Thompson, of Hanover, that there are in the hands of depositors 19,000,000 pass books representing savings deposits to the amount of $3,213,000,000. That under this system not a penny has been lost either by depositors or the guarantors, and that a financial stringency is quite unknown there.

It is quite generally thought that Canada has a plan for guaranteeing deposits against loss due to bank failures. This, however, is not the case. The only guarantee which exists among the banking institutions of Canada applies only to the circulation issued by chartered banks. Five per cent of the banks' average circulation is deposited with the government and in the event of a failure this circulation is charged against the assets of the issuing bank. The circulation is further secured by a guarantee on the part of all other banks. Should the assets of the bank be insufficient to redeem the circulation in full the funds in the hands of the government become available for that purpose. If this fund be depleted by any charge against it, all other banks are assessed to replenish the fund until it is again equal to five per cent of the total outstanding circulation.

As a result of this erroneous impression every Michigan banker, especially those near the border, knows that a great volume of Michigan money has found its way into Canadian banks. Does that not then explain why in times of financial stringency in this country the Canadian banks have plenty of money to advance our institutions?

The chartered banks of Mexico have long maintained a voluntary agreement among themselves whereby all come to the aid of each in time of peril, no matter from what cause. The information at hand shows that no such bank has failed, nor has a depositor ever suffered loss since the system was adopted under the advice of President Diaz.

For some time there has been maintained a depositor's guarantee fund by a system of banks in Georgia and Florida, known as the Withan Banks. This system of banks has an auditor who makes examinations and reports to the main office in Atlanta, Ga. The affairs are generally looked after and moneys handled and banks financed among themselves.

NEW YORK SAFETY FUND LAW OF 1829.

J. J. Knox. History of Banking. Page 404–413.

The distinctive feature of this law was that requiring the establishment of a common fund by a provision requiring every banking corporation thereafter created or whose charter should be renewed or extended to contribute annually a sum equal to one-half of one per cent. of its capital stock paid in, the payments to be continued until every such corporation had contributed to an amount equal to three per cent. of its capital stock. The fund was to be in charge of the Comptroller and Treasurer, and was to be kept separate from the funds of the State. It was to be invested by the Comptroller, and the income from the same, after paying the expenses of the Bank Commissioners created by the law, was to be returned to the contributing banks in proportion to their contributions. Whenever the fund was reduced by payments on account of insolvency, the several banks were required to continue their annual contributions until the limit of three per cent. of the aggregate capital of all the banks was reached.

Another feature of the system was the appointment of three Bank Commissioners to supervise and inspect the several banks, and report annually to the Legislature the result

of their investigations. It was supposed that in a commission consisting of three persons each would be a check upon the others. To effect this purpose the Governor and Senate were to appoint one commissioner, the banks in the southern portion of the State another, and the remaining banks a third.

These commissioners were required, either one or more of them, to make an examination of each bank in the system once in four months, and any three corporations could request them to make a special examination of any bank which they had reason to believe required it. The commissioners were not to be personally interested in any bank. No new bank could commence business until the payment of its capital stock had been proved by oath to their satisfaction. The banks could issue notes to double the amount of their capital, and their loans were not to exceed two and a half times their stock. The Chancellor, in cases of insolvency, was to determine the amount of debts of the bank, the amount of its assets, and the amount to be paid from the fund. Suspension of specie payments for ninety days was one ground for insolvency.

The law in regard to the manner of appointment of commissioners was changed in 1837, when the selection of all three was given to the Governor and Senate.

Hon. Millard Fillmore, Comptroller of the State of New York, in his report for 1849, says:

"This, of course, brought them within the vortex of the great political whirlpool of the State, and the place was sought for and conferred upon partisan aspirants without due regard in all cases to their qualifications to discharge the delicate trust committed to them. This state of things, under the administration of both the great political parties of the State, continued until 1843, when the Legislature abolished the office and conferred the power of examining these banks upon this office whenever there was reason to suspect that a bank had made an incorrect report, or was in an unsafe or unsound condition to do banking business."

The stock of the safety-fund banks was distributed by agents selected from the neighborhood of the institutions, and was in many instances divided among the political friends or favorites of the agents. The Bank Commissioners, in their report for 1837, say of this:

"The distribution of bank stocks created at the last session has in very few, if any, instances been productive of anything like general satisfaction. In most instances its fruits have been violent contention and bitter personal animosities, corrupting to the public mind and destructive of the peace and harmony of society."

The commissioners, in despair at the situation and the general complaints, proposed that the stock should thereafter be sold at auction.

Contributions to the fund were first made in 1831. In 1832 the report of the Bank Commissioners indicates that there were then fifty-two banks in operation under the safety-fund system, and twelve others not subject to it. They mention a large and continuous increase in circulation of the banks from January 1, 1829, to January 1, 1832, that of the banks outside of New York city and Long Island having risen from $4,508,056 in 1829 to $8,622,277 in 1832. There was also a corresponding increase in capital stock. They say:

"The very large amount of circulation of the banks outside of the city of New York, compared with that of the last year, is attributable in part to the use of capital belonging to the canal fund, in part to the establishment of new banks, and partly to a general overtrading in the country, somewhat encouraged by the facilities afforded by those banks."

The canal fund, which amounted to about two millions of dollars, was deposited with banks.

The stocks of the new banks were sought for with much eagerness both by investors at home and from other States. The latter were induced to purchase because of the popularity and supposed safety of the safety-fund system, and the former by the hope that the demand from abroad would force the

stock to a premium which they could realize by selling out after holding the stock a short time. Contests for the control of the institutions had the effect of increasing the number of subscriptions, and the *commissioners speak of the number of applications for new acts of incorporation as far exceeding any prudent calculations of profitable investment. They intimate, however, that the demand for gold for export indicated an approaching severity of pressure on the banks, and view with apprehension a future suspension of specie payments. The law permitting the banks to issue notes to double the amount of their capital would permit a possible aggregate circulation of $50,000,000, although the necessity of redemption in specie had kept down the actual circulation to $14,000,000. If specie payments were suspended the commissioners feared an exorbitant increase. They reported that their examinations of the various banks under their control showed them to be in good condition.

The pressure anticipated in the commissioners' report of 1832 culminated during the year 1834. In the report of the Bank Commissioners for 1835 they speak of the financial crisis just passed as of a character political rather than commercial. The existence of deep pecuniary suffering at a time when there were abundance of products, an unusual supply of the precious metals, and the country a creditor in the commercial world, was anomalous. This condition of distrust was ascribed to the removal of the deposits from the Bank of the United States, bank curtailments, the necessity of paying duties in cash, overtrading and excessive bank issues. There were grossly exaggerated accounts of actual distress, misrepresentation of facts, solemn and confident predictions of impending ruin in the public papers, all coming from high authority. The New York banks were special objects of attack. Insolvency was insinuated and directly charged, the people

* Commissioners' Report, 1832.

were appealed to to save themselves by demanding specie for bank notes, and the ruin of the safety fund was prophesied.

The country banks were not required to redeem their notes except at their own counters, and when their paper accumulated in the cities it was at a slight discount. The law did not permit the country banks to buy up their own notes, and it had become customary for the Albany and New York banks to purchase these notes when offered and send them home for redemption. The country banks kept very little specie at home, and generally kept their funds in the cities, and consequently redeemed the notes when presented by drafts upon their deposits in the cities. In the height of the pressure, a refusal to purchase the country notes on the part of the banks usually doing this business placed them at a serious discount, though there was no refusal to redeem when presented at the issuing bank. The strength of the banks outside the cities is indicated by the fact that they reduced their circulation two millions by redemptions within sixty days.

In 1835 the number of banks under the safety-fund law was seventy-six, with a capital of $26,231,460, that of other banks in the State being $5,175,000. The total circulation of the safety-fund banks was $14,464,023, against which they held in specie $5,561,745, and specie funds in city banks $4,944,877. The banks appear to have been very strong at this period. The bank fund had reached $400,000, and no drafts on it were anticipated. The income from it was to be distributed among the contributing banks.

In 1837 the Free Banking Law of New York went into operation, and the banks under it came into some competition with the safety-fund or chartered banks. During 1839 the latter curtailed their loans to the amount of $15,512,000, and their circulation was diminished by nearly $9,000,000. A considerable depreciation of the notes of the country banks began early in the fall of 1839 from the discontinuance of a voluntary arrangement by which they had been purchased by

the city banks in New York city. The city banks were induced to abandon this arrangement on account of the necessity of retaining control of their own funds and the immense amount of the country notes thrown on them for redemption. The discount on these notes was from two to six per cent. and caused much confusion in the exchanges. To remedy this state of things and prevent their recurrence, the law of May 4, 1840, required all banks, safety-fund and free banks, outside of New York, Brooklyn and Albany, to appoint agents in the cities of New York and Albany for the redemption of their notes at a discount not exceeding one-half of one per cent.

From the year 1829 to the year 1841, covering a period of twelve years' duration, the safety fund was not drawn upon, as no chartered bank became insolvent during that time.* The first failure of a bank under the system was that of the Wayne County Bank, of Palmyra, due to the culpable conduct of its President. The Chancellor was applied to in December, 1840, for a temporary injunction to close the institution, and this was subsequently made permanent. Its circulation alone amounted to $139,392. It was then discovered that the law made the safety fund responsible not only for the circulation, but for all the debts of the insolvent bank.*

The commissioners say: "This peculiar feature of the law does not seem until recently to have been generally understood either by the public at large or even by those engaged in the business of banking; and great doubt is entertained in regard either to its justice or its expediency." They add: "The Safety-Fund Act was primarily designed to secure bank-note holders and not depositors or other creditors."

The whole capital then subject to the law was $32,551,460, which gave an annual payment of $162,795.73. The fund on January 1, 1841, was $861,643, and the number of safety-fund banks ninety. It is true that Mr. Foreman, in his letter

* Commissioners' Report, 1841.
* Report, 1841.

formulating the plan, uses the term, "debts of the bank;" but, as he just before dwells particularly upon circulating notes, it is probable that it was the debts on this account he had in view, the more so as he distinctly mentions from $500,000 to $1,000,000 as the limit of the fund, which he never could have imagined sufficient to meet all the debts of insolvent institutions.

From this oversight or misunderstanding arose the disasters which afterwards overtook the safety-fund system. If, as was the probable intention of its suggestor, the fund had only been drawn on for the redemption of the circulation of the banks that became insolvent, it would have been amply sufficient for the purpose, as will hereafter be seen. When it was found that all the debts of every description were to be paid from it, a fictitious credit seems to have been given to the chartered institutions, which was used by some of them in recklessly contracting debts for the emolument of their managers. In 1842 an act was passed devoting the safety fund exclusively to the redemption of circulating notes; but within the six months previous to the passage of this law, six banks, with a circulation of $1,408,000, had failed, and injunctions were obtained by the creditors of these institutions to prevent any payments from the fund to redeem the circulation of banks subsequently becoming insolvent until all the debts of banks failing prior to 1842 had been paid. The act of 1837 authorized immediate redemption of bills, but required one-third of the safety fund to be reserved for debts. The question was further complicated, inasmuch as the act of 1842 permitted the solvent safety-fund banks to pay in their future contributions for the next six years in bills of the insolvent banks, with an allowance of interest to the bank of seven per cent. on the sum paid until the time when it would have become due. Ten banks in all had become insolvent at the date of the passage of the law of 1842, and this law required the bank fund to be applied to the payment of their notes in the order of their failure. As the banks could pay in notes of any of the insolvent banks, and thus im

mediately get a benefit from them, there seemed to be a serious inconsistency in the law, as well as a great deficiency in the fund. The Comptroller, in 1845, and also in 1846, recommended that a stock, bearing six per cent. interest, should be issued, to be redeemed from future payments to the fund, which should be used to immediately pay all the claims upon that fund. In many of the failures which occurred it was found that there had been issues of notes largely in excess of those allowed by law, and that the commissioners had been, in making their regular examinations, deceived by fraudulent devices and by perjury on the part of bank officials. There was no penalty for illegal issues of notes, nor for deceiving the commissioners. Some of the officers were, however, indicted for perjury. In July, 1843, an act was passed which required all future issues of notes by the safety-fund banks to be printed, countersigned and registered by the Comptroller, to whom all plates were to be turned over, to remain in his custody. All notes outstanding were to be redeemed and sent to the Comptroller for destruction, and were gradually to be superseded by the countersigned and registered notes.

In his report for 1845 the Comptroller sums up the condition of the fund at that time as follows: It was estimated that the amount required to pay the debts of insolvent banks was $1,017,000. There was in the fund $179,193, leaving to be provided for $837,806. There had already been paid from the safety fund $1,502,170, and this, with the further amount of $1,017,000 estimated to be due, made a total charge on the fund by the failure of ten banks of $2,519,170. In his report for 1846 Comptroller Flagg shows that the total contributions to the fund were, up to September 30, 1845, $1,885,536.99, and the redemptions of notes were $1,769,922, showing the fund to have been ample security for the circulation of the insolvent banks.

In this report the Comptroller compares the safety-fund and free banking systems and says: "In the security of the pub-

lic under each system, our experience in the failure of ten safety-fund banks, and about three times as many of free banks, proves that the contributions of one-half of one per cent. annually on the capital of the safety-fund banks have thus far afforded as much protection as the deposits with the Comptroller, by the free banks, of a sum nominally equal to all the bills issued by them. It will be seen by reference to a statement under the head of insolvent free banks, that the loss to bill holders on the supposition that all the securities had been stocks of this State and bonds and mortgages, would have been over sixteen per cent., while the actual loss has been nearly thirty-nine per cent. The loss by safety-fund banks to the first holders (from delay in payment and consequent depreciation) was from twenty to twenty-five per cent.; and there has been a loss of four years' interest to subsequent purchasers, whereas in the case of the free banks, the securities were sold and the proceeds paid to the bill holders within a few weeks after the failure of the bank." If the Banking Fund Act of 1829 had provided only for the redemption of circulating notes, as is the case with the act for free banking, all the notes of the safety-fund banks which have failed would have been paid at par by the contributions made to the safety fund from 1841 to 1845. And if the present plan of registering notes (to prevent illegal issues) had also been in operation the result would have been still more favorable, as fraudulent issues have been redeemed from the safety fund to the amount of $700,000.*

The Comptroller, in his report of December 31, 1847, states that, under the act of 1843, all the unregistered notes of the safety-fund banks had been redeemed and destroyed except $716,620, which were still outstanding. At this time the future contributions of all the safety-fund banks were mortgaged to meet the bank fund stock issued in payment of the debts of the banks which had failed during the years 1841–42, and that, in case of an additional failure there could be no

*Ex. Doc. No. 77, 1st sess., 30th Cong., page 211.

resort to it, so that the circulation of the safety-fund banks, amounting to $16,926,918, rested solely on the solvency of each bank issuing the notes. The Comptroller feared that, as the debt of the State diminished by operation of the sinking fund, it would be impossible for banks desiring to operate under the free banking system to obtain the stocks necessary as a basis of circulation. He suggests that a safety fund ample to protect bill holders might be accumulated by requiring each bank to pay in to the Comptroller an amount equal to one-half of one per cent. upon the circulating notes to be issued for the term of its charter. Thus a bank chartered for twenty years, with a capital of $100,000, could issue $150,000; and, if it desired to issue the full amount, would under the proposition, pay in at once $15,000. The sums thus paid in to be placed at interest by the Comptroller for the benefit of the fund; with paid-up capital and ten per cent. of circulation in the safety fund to be held and husbanded, he believed the currency would be amply secured as required by Section 6, Article 7 of the constitution, which provides that all bills or notes put in circulation as money shall be registered, and shall have ample security for their redemption in specie. It would require the consent of each of the free banks to carry out this method of a safety fund, and they ought therefore to be given the option of entering into such an arrangement or depositing stock and bonds and mortgages as at present. It is thus seen that in 1847 the same difficulty was felt in regard to the permanency of the circulating notes of the New York free banking system, based on stocks, as has since arisen in regard to the circulating notes of the National banks.

The Hon. Millard Fillmore, Comptroller in 1848, in his report of December 30, of that year, says that the safety fund itself had long since been exhausted, and future contributions to it mortgaged by the issue under the act of 1845 of $900,828.47 of six per cent. State bonds with which the debts of the insolvent banks in excess of the fund had been paid. Since 1829 the contributions to the fund had been $1,876,063, the whole circulation redeemed from the insolvent banks was $1,548,558,

leaving a surplus of $327,505, which, with the amount obtained for the six per cent. State stock, had been swallowed up to meet other debts of the institutions. "It is therefore apparent," says Mr. Filmore, "that the safety fund would have proved an ample indemnity to the bill holder had it not been applied to the payment of other debts of the bank than those due for circulation." He thought it reasonable and proper for banks to contribute to a fund to make circulation secure, but saw no reason why such a fund should be created for the purpose of securing depositors and other creditors. The law, even in 1842, simply preferred bill holders; if there were any surplus it could still be applied to the payment of other debts. He recommended that the fund should be sacredly devoted to the bill holder and to no other purpose.

In 1848 there were seventy-eight incorporated safety-fund banks in operation and two branches. The charters of all were to expire by 1866. By the act of May 16, 1837, these banks were allowed to issue circulation in proportion to capital, as follows:

Capital.	*Circulation.*	*Capital.*	*Circulation.*
$100,000	$150,000	$250,000	$225,000
120,000	160,000	300,000	250,000
150,000	175,000	400,000	300,000
200,000	200,000	500,000	350,000

Capital.	*Circulation.*
$600,000	$450,000
700,000	500,000
1,000,000	800,000
1,490,000	1,000,000
2,000,000	1,200,000

By the act of April 12, 1848, banks with a capital of over $200,000 were allowed to issue circulation to the full amount of their capital; but for this additional issue they were required to deposit security with the Comptroller in the same manner as the free banks.

The safety-fund system was not finally terminated until

1866 by which date the charters of all the incorporated banks had expired. The Legislature passed an act in that year providing that the amount of the safety fund remaining after all claims upon it were discharged should be paid into the treasury of the State.

The system did not meet with the success that the principle would seem to warrant, and this was chiefly due to the attempt to make all the debts of the insolvent banks chargeable to it. The heaviest failures took place before the change was made in the law by which the circulating notes alone were redeemed from the safety fund. The history of the fund from 1829 to 1866, a period of nearly forty years, indicates that if, from the first, the contributions of the incorporated banks had been applied to redeeming the notes of the insolvent institutions, they would have been ample for the purpose, and would have made the circulation of the safety-fund banks more secure than that of the banks under the free banking system. If the law requiring the Banking Department to control the printing and register and issue to the banks their currency had been a part of the original act, it would have prevented illegal issues to the amount of $700,000 which were redeemed from the safety fund; and, instead of a surplus of about $13,000, placed in the State treasury under the law of 1866, there would have been a surplus of nearly a million dollars at that time. In other words, owing to defects in the practical application and operation rather than in the principle of the safety-fund act, the banks, under the system, were called upon to contribute about a million dollars more than they would had the defects referred to been seen and obviated at the outset.

GENERAL CONDITIONS.

Alex. H. Revell. "Guarantee of Bank Deposits."

The general situation as to the great public concern in the protection of bank deposits may be partly understood by the statistics of failed state and private banks of the United States for the following years:

Year	Number of Failures	Nominal Assets	Liabilities
1897	122	$17,929,163	$24,090,879
1898	53	4,493,577	7,080,190
1899	26	7,790,244	10,448,159
1900	32	7,675,792	11,421,028
1901	56	6,373,372	13,334,629
1902	43	7,323,737	10,332,666
1903	26	2,166,852	4,005,643
1904	102	24,296,823	31,774,895
1905	57	6,970,345	10,273,023
1906	37	6,591,515	7,187,858

In the 37 failures in 1906 were 15 state banks, 5 savings banks, 4 trust companies, and 13 private banks. The failures by geographical sections were: New England States, 3; Eastern States, 2; Southern States, 16; Middle Western States, 14; Western States, 1; Pacific States, 1. The assets of the 16 banks which failed in the Southern States amounted to $5,110,414, and their liabilities to $4,806,924. The assets of the other 21 banks were $1,481,101, and their liabilities, $2,380,934.

It can be seen how important the matter of deposit protection is to depositors outside the national banks, statistics in relation to which will be presented later. To the savings bank depositors there is the greatest hardship. Naturally they are the ones most likely to rush to the banks for their money in a time of uncertainty; and they are the ones who stow away the actual money, or spend it recklessly. For such persons the law should, as we have stated, offer full protection.

The figures given in all such records are cold and meaningless until they are translated into human experience. How large is the general sum of distress shown in the table given may be judged from the effects of a single instance. About two years ago the Milwaukee Avenue Bank, of Chicago, suddenly closed. A large community, in a comparatively small

district, was panic stricken. Many depositors were foreigners, workingmen, small tradesmen, and others, who suddenly found the savings of a life-time taken from them. No matter whether anything could be realized upon the assets in the future, or not, the fact which dazed them was that no one could get his money, that the bank deposits were not negotiable. The plans of thousands of men, women and children were disarranged and they were plunged into distress. Frightened, despairing, some committed suicide, others went insane, others failed.

And yet, the worst of it is that such a pitiable wreck of human happiness could have been avoided, had there been some method of guaranteeing the deposits, until the assets could have been realized upon; for, in actual fact, the receiver paid 70 per cent to the depositors inside of five months after the bank was closed, without calling upon the further amounts to be collected from the stockholders, under the law.

If there had been a guaranty to depositors, I believe this bank would never have got into such a predicament; or, if it had, the matter would have created no more disturbance than a gentle breeze on a June day. Innocent depositors would have been able to negotiate their deposit books; the only loss to fall upon the insurance fund would have been the insignificant sum—if any—by which the total assets fell short of the deposits; and all that human misery would not have stained the record of our city.

Indeed, when to the data already considered we add a comparison of the deposits with the capital stock and surplus of the banks of the country, we have the whole question in a nut shell. The deposits represent money borrowed ffom the depositors—the public, by the banks; their combined capital and surplus, with shareholders' responsibilities, represent the security given by the banks for these loans, which totals considerably less than one dollar in five. Confidence of the depositor, based largely upon government supervision of banks, makes up the other four dollars of the security due

him; so he is in the position of loaning his money and furnishing the security of the borrower which lies behind it. And the vital point is that he does not control this four-fifths portion of the security behind his deposited funds, himself. It is in the hands of others—in their power to invalidate it at any time—by shattering public confidence, as the high finance manipulators have recently done. Then the depositor finds all of his security gone, perhaps, and learns that it was built upon an unreliable foundation—sand.

The banks, it must be admitted, disapprove of such security for themselves most seriously. When a business man goes to the bank to borrow money he is required to furnish security. This security may be either convertible collateral, indorsements, or credit on reputation, backed by stocks of merchandise. And yet, if the borrower leaves any part of his loan, so obtained, in the form of a deposit in the bank, without checking it out, in which case he, in turn, is really lending to the bank, he receives no security for this loan of part of his loan to the bank. In fact, he leaves it solely because he has confidence in the ability and integrity of the men to whom he has intrusted his money, confirmed by his knowledge of governmental authorization and regulation of the bank, also by reports of its financial condition—of which, however, few savings depositors know anything.

So long as our financial sky is clear, depositors have confidence and all is, of course, well. But, we have learned that such conditions are big with possibilities of danger. We have learned that the whole business fabric depends upon the maintenance of confidence—which may be destroyed by the criminal operations of a few unscrupulous men, entailing disaster upon millions of individual depositors, or by rumors of impending financial disaster, which may or may not be well founded. All of our panics have been precipitated by a loss of confidence (proceeding from one cause or another) on the part of the business public—including bankers. This lack of confidence invariably and quickly extends to the depositors,

the larger ones and those on the "inside" sometimes pointing the way.

The worse the trouble the more timid the large body of depositors becomes. In fright, they withdraw their money from the banks; the banks are accordingly compelled to contract their loans, and try to build up their reserves against the coming storm; manufacturers and business men are unable to obtain the loans needed to carry on their business; and the fearful force of panic and depression grows, until all our industries and commerce are paralyzed.

Therefore, since lack of confidence is the cause of panics and destruction, the obvious remedy for the case is to provide some security more tangible than confidence. We hear much of the structure of confidence. Every banker and man of industry talks about its importance; but they do not seem to stop to think that this great essential of commercial life should, if possible, be closely held and controlled. As it is now, countless millions, each one without knowledge of the true financial status, rush blindly into danger, and drag others down with them.

MR. REVELL'S PLAN.

In order to induce the banks to keep a more careful watch than is now done upon the operations of each other, it is my view that it would be well to require all banks to contribute to this fund. A tax—so light as to be hardly felt—might be levied upon the stock and surplus, or the total deposits, of all banks, continuing annually, so that at the end of a stated period (say five years), when the system should go into effect, there would be accumulated an ample protective fund. If it be desired to have this insurance tax upon total deposits, this is capable of computation just as definitely as any other hazard in insurance; for we have the data from an experience of 43 years of the national banking system, beginning in 1865.

STATISTICS.

Up to and including October 31, 1907, for the whole United States, the affairs of 387 insolvent national banks have been settled and the receivers discharged.* The complete figures for these banks are as follows:

Capital stock at failure	$ 59,622,420
Total assets	239,367,517
Collected from assets	115,955,385
Collected from shareholders	17,616,404
Total collections	133,571,789
Amount of claims proved	128,847,308
Dividends paid	95,815,643
Average rate of dividends, per cent	80.83

The expense of administering the affairs of a closed bank, including all legal and other expenses, has been four and three-tenths (4.3) per cent. of the nominal assets.

The relation of the losses of all these failed banks to individual deposits, during the 43 years, has been computed by the Comptroller.† The total deposits for the whole period show an annual average of $1,529,339,311; and the total losses to creditors of the insolvent banks (finally closed) in the 43 years were $33,183,293, or an annual average of $771,705. That is, the total losses for 43 years equalled only two and seventeen-hundredths per cent. of the annual average amount of deposits. But the case is better than that. The average annual losses (being $771,705) were only five-hundredths (.05) of 1 per cent. of the average annual deposits—or 1-20th of 1 per cent. Moreover, in 1907, there were 6,544 national banks, with individual deposits of $4,319,035,402; hence the average annual loss from failed national banks in relation to deposits in 1907 would have been only 18-1000 of 1 per cent. In 1905, to take another example, the liquidated losses were

* Report of the Comptroller of the Currency, 1907, pp. 354-357.
† Report, 1907, pp. 366.

only $4,767, or one ten thousandths (.0001) of one per cent. of the deposits of that year, which were $3,820,681,713.

An examination of the figures shows also that the losses were relatively larger in the earlier years of our history, as would be natural; while since 1897 they have been very small. Certainly, it will surprise any business man who has not examined the reports of the Comptroller, to know how small are the losses from the failures of national banks.

In the critical period, 1893–1897, the losses were as follows:

Year.	Number of banks.	Individual deposits.	Loss to creditors of insolvent banks.	Rate of loss to depositors.	
1893	3781	$1,451,124,330	$4,475,528	.308	of one per cent.
1894	3755	1,728,518,819	1,789,371	.104	
1895	3712	1,701,653,521	1,954,048	.115	
1896	3676	1,597,891,058	3,502,158	.219	
1897	3610	1,853,349,128	1,244,145	.067	

In 1893, the worst year of a panic, known as a bankers' panic, the losses were no greater than 1-3 of one per cent. of deposits. Any rate which would cover losses in this period would be far too high in other, and later, periods, when conditions were normal. The average losses for the whole period of 43 years was shown to be only 1-20th of one per cent.

Altogether there have been four hundred and seventy-five failures among the national banks, or five per cent. of the total number. Of these, 387 have been wound up, as shown. The greatest number of failures occurred in the western states; the smallest number in the New England states. The greatest number of failures any year was in 1893, when fifty-one banks closed, owing $18,418,031. The depositors lost $4,475,528, or twenty-four and thirty-hundredths (24.30) per cent. That was a panic year. In 1897 there were thirty-five failures of national banks, but out of $25,535,553 in deposits the depositors only lost $1,244,145, or four and eighty-seven-hundredths (4.87) per cent. The smallest loss was in 1902, when two national banks failed and the loss to de-

positors was $1,113, or twenty-nine hundredths (.29) of one per cent. In 1906 the amount realized by receivers was in excess of the amount of the liabilities. During the period 22 banks were restored to solvency.

If a comparison be made between the losses and the capital and surplus of the banks, we shall have the data for computing the tax, if it be preferred—not on deposits, but on capital and surplus.* For the years 1863–1893, the annual average of the aggregate capital and surplus was $608,897,679. The average annual losses to creditors were $837,110, or one hundred and thirty-seven thousandths (.137) of one per cent. of the capital and surplus. But taking the whole period, 1863–1907, the annual average of the aggregate capital and surplus was $740,642,189; the average annual losses to depositors were $771,705, or one hundred and four-thousandths (.104) of one per cent. of capital and surplus. That is, a tax of 1-9 of one per cent. on capital and surplus would have been sufficient to cover all losses from failed banks throughout the history of the system.

During all these years since 1864 the national banks have existed under practically uniform regulations. The statistics of their business and growth have been kept continuously and under the same system. Therefore, the figures are truly representative, and can be used as an index of certain inherent risks. *The insurance rate of 1-10th of one per cent. on deposits would be conservative, the overload* being sufficient to cover all probabilities. Thus we may conclude that a reasonably safe basis for a scientific deposit insurance for national banks is already established.

If it should be thought advisable to extend the protection of the national fund to state banks under certain amendments of the banking laws the figures are available for the establishment of the fund on this basis; though it seems likely that the various states will provide their own insurance, extending its provisions to national as well as state banks, un-

* Report, 1907, p. 366.

less Congress should act promptly and secure the credit for this great piece of needed and beneficial legislation.

To help out the national banks, Oklahoma has extended the provisions of its deposit insurance law to include them, if they can secure permission from the comptroller of the currency to avail of it.

As to responsibility for the guaranty fund, this should be placed entirely, or as much as possible, under governmental direction and application of it, upon the bankers—as previously stated.

Some may consider it more desirable that Congress be asked to authorize the national treasury to set aside out of its surplus an initial fund to inaugurate the plan at once, the government to be later reimbursed out of the returns from the insurance tax annually levied. However that may be, I believe it would be better if the fund accruing from the tax be permitted to accumulate to a certain amount, say $50,000,000 (which could be reached in a few years) before the plan or law becomes operative. This fund should be invested in the very highest character of low grade securities. Should it accumulate to a sum beyond reasonable requirements, a dividend could be made to all participating.

Whichever method would afford the more convenient, effective and economical establishment and application of the fund should, of course, be employed; it being imperative, however, that the pivotal principle—that the fund itself and all expenses in relation to its operation, etc., should be supplied and maintained by the banks—be incorporated as the essential element of the system.

The custodian of the fund should, of course, be the United States Treasury. The fund could be held by the Treasury at the disposal of the Secretary of the Treasury, or the Comptroller of the Currency, or both. The liability of the government should not exist for an amount greater than that in the fund or obtainable under the tax; but, as has been shown, this sum, say of $50,000,000, is much larger than would be

required to pay the losses of liquidating banks, for many years to come. The computation shows that a smaller sum would be ample.

No revolutionary legislation is needed to put the guaranty plan into operation; in fact, the whole existing national bank system would be left undisturbed. There would be needed only an amendment to existing laws, establishing the fund by a tax or appropriation, as above indicated. No change would be necessitated in our present system of inspections and other safeguards; and there would be no more interference by the government than there is today with the management of the banks.

Doubtless the insurance fund itself would support an improved system of inspections, which might supplement that of the Comptroller of the Currency; but such details as these may be safely left to the experience of the government and to bankers and business men, to be worked out. Once the essential principles here presented are put into operation, all the objections which may appear against the plan would, it is believed, one by one disappear. The greater the experience, the greater would be the perfection of operation, from year to year.

In case of bank failures, the method of procedure would be the same as it is now, with this vital exception: the depositors in national banks—as well as the general business public—would understand that their deposits were immediately available because they were insured by the fund, and this because they could at once negotiate their accounts with other banks. Knowing there could be no loss, other banks looking for new business would accept these available accounts, undoubtedly without discount; but, in any case, the discount would be exceedingly slight.

Indeed, we may expect to see many banks offer to take over the accounts and quick assets of defunct banks, agreeing to carry the former at book value and wait the payment from the guarantee fund of any deficit that may develop upon the

winding up of the failed bank's affairs; this in order to acquire a profitable addition of business—which is worth something in any line and in banking as much, if not more than any other.

At least no banker would refuse to advance money at a fair rate of interest on all deposit accounts in failed banks, as this would be directly in the line of his business and profits.

By this means the depositor could be put in immediate possession of a part, or all, of his money; and thus be able to save his credit, his business, his home—or his interests of whatsoever kind.

II. AFFIRMATIVE ARGUMENTS.[1]

It will prevent losses and hardship to depositors.

It will promote sound banking.

It will reduce the number and seriousness of bank failures.

It will eliminate failures of sound banks forced by "runs."

It will protect assets of failed banks against forced sacrifice.

It will quicken competition in the banking world.

It will raise all State and National banks to the same high level.

It will justify governmental patronage of banks by rendering it effective for protection, which it is not now.

It will insure continuance of public confidence and thereby prevent panics—a service of incalculable benefit to commerce and to every member of the population.

In addition to preventing withdrawals by runs on banks, it will add, it is estimated, almost a billion dollars of money, now hoarded, (in and out of banks), to our circulating medium, and eliminate the need for more or less doubtful financial legislation.

It will, in this and other ways, materially increase the volume and profits of business.

It will directly and greatly increase the business and profits of bankers.

[1] Adapted from Guarantee of Bank Deposits, A. H. Revell, p. 70.

It will encourage thrift, the keystone of character and good citizenship—the soundest trait a nation can acquire.

It will tend to remove from the public contemplation the disgraceful and sensational spectacles of betrayed confidence and shattered integrity represented by great bank failures—and which cannot but have a most deteriorating influence upon public morals.

In the same way it will serve to materially raise the profession of the banker, his position and himself in the public estimation.

A. H. REVELL.

"Guarantee of Bank Deposits."

It is true and I desire to repeat it, that the first and direct end of the guaranty fund here proposed is the saving of the depositor from loss through bank failures and subsequent enforced waiting for dividends. It is not to the point to say that the depositor, if patient, will, in time, be paid most of his money. The crux of the matter lies in the stringency into which the depositor is plunged who has funds locked up in an insolvent bank on which he cannot realize anything at the moment of his greatest need. Utterly helpless, he is thrown into complete despair; he finds his family and his future jeopardized, his years of labor and economy discounted —for his money, if not lost, is removed from his use for an indefinite period. For instance, a national bank with liabilities of $11,000,000 failed in 1896; and it was still in the receiver's hands as late as 1906. Say that it has paid or will pay back at least the average (80 per cent.) realized by depositors in insolvent banks; *dividends spread over ten years give no real return for the original loss at a time when obligations had to be met to prevent failure.*

Further, the losses which have been shown are the product of conditions as they now exist, under a system which extends no insurance to depositors. Now, if the guaranty scheme were adopted there would be, as will be shown later, such immensely greater vigilance and safer and stricter guardian-

ship promoted by fitting laws, penalties, etc., than exists today that the losses would be still farther reduced. The guaranty plan, in fact, will work to secure sound banking and prevent failures. And this brings us to the heart of the question.

Because of the fact that all banks must contribute their quota to the guaranty fund and thus correspondingly share in the losses due to bad banking, every banker will, under the operation of the fund, have a powerful motive for preventing mismanagement in any bank whose operations are known to him.

The banks should be, and usually are, the first to know when one of their number is straying from the beaten path of conservative management. Instead of putting the responsibility of watching against loss upon depositors, who have no direct means of knowing the inside doings of bankers the guaranty scheme would put the responsibility upon bankers themselves, who are the only ones who could have inside knowledge of banking methods and the soundness of loans. It would not, as now, be left to them to be careful, but they would be obliged to be so whether they wished to or not.

The guaranty plan is a plan of prevention, not of cure; it aims to shut the stable door *before* and not *after* the horse is gone.

The scheme, indeed, contains in itself an automatic corrective against unsound banking, which would prove in every way salutary. The corrective would operate in a very practical way, which can be illustrated by banking in Chicago since the Walsh failures. These failures took place under existing conditions, in spite of present methods of inspection; for the Comptroller could interfere only when methods were clearly in violation of the national banking law. After the collapse of the Walsh institutions, the Clearing House Committee of Chicago instituted a system of inspection of its own over all banks clearing through the association. This

system enables the Committee to know everything improper and unwise, even if it should not formally violate the law; hence, a correcting hand may be at once firmly laid upon the offending bank. Undoubtedly, it is this system which put the Chicago banks in such healthy condition to meet the recent financial crisis; a fact for which they deserve much credit and have already received the commendation of the country.

Now, exactly similar precaution would be forced upon the banks in every city, were a guaranty fund in existence. Aware that the insurance fund furnished by them would have to meet all losses, bankers would have a vital interest in preventing bank failures; and they would give pertinent advance information as to unsound methods to the inspection department; a protective provision which would, it is admitted, in nearly all cases have prevented such failures as have recently occurred.

That bankers everywhere throughout the country are even now being forced to organize themselves into a unit, and provide active measures for the more complete information and effective control of the banking situation in their respective cities and sections, is one of the pertinent facts that has lately come before us. St. Louis has already organized or is preparing to organize an inspection system similar to those now in operation in Chicago and New York. Many other cities have also done or are doing likewise.

Detroit furnishes a notable example of the reasons for this wise innovation, as revealed in the following recent press dispatch:

(Special to the Record-Herald.)

Detroit, Feb. 19.—With their $1,000,000 loss through Frank P. Glazier as the stimulating influence, Detroit bankers are seriously considering the appointment of either a special bankers' committee or a special local bank examiner to prevent the banks from again being loaded with one man's paper.

A special examiner is urged by some of the banks, the ex-

aminer to keep tab on large loans, and to let the interested banks know if a borrower is piling up loans.

This Detroit case is a striking example, because the action of the bankers mulcted directly attracts attention to the interests of the depositors, and to the indefinite security which they hold under the present system. Those bankers loaned a million dollars of the depositors' money to a man who, it seems, was not entitled to a credit of more than $250,000.

If there is a way to correct this laxity, making it cost bankers something when a controllable error of this kind is made, especially when it is liable to precipitate one or several of the banks concerned into failure, is it not the part of wisdom to adopt it? Bankers everywhere, by their actions in moving toward mutually protective provisions, are answering "Yes" to this question.

The activity of the banks in the direction indicated and the recognition of their increasing responsibility to the public has just been ably voiced by ex-Secretary of the Treasury Gage, long known as the successful head of one of the great banking institutions of the West, in a letter recently addressed to Congressman Charles N. Fowler, chairman of the House Committee on Banking and Currency. Writing upon the subject of mutual protection by the banks for the benefit of themselves and the depositors, he says:

"The City of Chicago furnishes at the moment a striking and wise example. Surprised some time since, that one of their banks, the Chicago National, with liabilities aggregating some $27,000,000, was in an insolvent condition, the clearing house banks, at a known large hazard to themselves, took over the assets of the Chicago National bodily and assumed and paid off half its liabilities.

"Not again to be surprised in a similar fashion, they agreed by common consent among themselves to have an agency of their own quite outside of the government's official agency, to keep a close inspection and tab upon the methods, doings, and financial practices of each and every member of their organiza-

tion and upon any other bank or banker in the city, for whom one of their number shall act as a clearing house agency, with power substantially to close the doors of any member by suspending that member from the clearing house. The power of control in the Clearing House Association is thus complete and absolute.

"To be sure, they have not entered into a legal obligation for the losses to the public through a weak or failing member, but with power of examination and control thus assumed, goes the duty of guardianship and protection. If they fail to administer and allow a failure, also the result of vicious methods, to occur in a fellow member, can they escape without dishonor the moral obligation to protect the public from the results of their laxity and neglect? Their action in the case of the Chicago National establishes a precedent. It is to be remembered that it was established when they did not possess the present power of intimate knowledge and control. This gives good warrant for the belief that now, under the conditions above indicated, they cannot and will not depart from the method which precedent goes to establish.

"I am informed that both Kansas City and St. Louis are taking steps in harmony with those taken in Chicago. It will be to their advantage to do so, since the public will not be slow to give preference to those cities which adopt the conservative method described."

How much more effective is the inspection of a clearing house examiner representing all of the clearing house banks of a particular city than that of the government examiner need not be explained to any one at all familiar with the situation.

The clearing house examiners are men on the ground all of the time, men selected because they are familiar with the local situation in every way, with business, with values, manufacturing, mercantile, real estate and otherwise, etc. These examiners can intelligently inspect loans and the soundness of the notes and collateral behind them. Their inspection is

such, and is so respected, that the banking house is kept clean in anticipation of their visits. Such inspection *will* prevent failures.

The guaranty plan would result in making these inspection provisions established by the bankers co-operative and universal.

The great value of co-operation among banking interests was most strikingly evidenced by the recent peaceful end of the Sovereign Bank of Canada in Toronto and its seventy-six branch banks, scattered throughout the Canadian states.

Announcement was made that the Banker's Association of Canada had taken over the assets and assumed the liabilities of this bank and depositors were advised that they could have their money on demand. Learning that their funds were secure, few appeared to demand them. The other Canadian banks had united to prevent a great catastrophe. They divided the business of the defunct bank up among themselves, certain banks taking possession of the branches in some cities, others taking over branches in other cities, etc., thus arranging to save what was possible and then share the net loss among themselves. Their action was an exact illustration of the practical operation of a guaranty fund. And what a loss it saved!

The sudden closing of a bank with seventy-six branches throughout the principal cities of the United States would entail unspeakable ruin and wretchedness and the disturbance would be felt in finance and commerce for years.

In Canada a main bank and seventy-six branches suspend in one day with causing the slightest riffle, or involving the loss of one penny to depositors!

Does this suggest that we should for any insufficient reason allow bank failures and enforced liquidation to continue to destroy confidence, credit and assets in this country and to pile up heaping ruins, in inglorious testimony to the lack of cohesion and mutual insurance among our banks?

No better illustration than the liquidation of this Canadian

bank could be offered to emphasize our nation's need of mutuality and co-ordination in banking.

This late utterance shows how the conviction as to the need for mutually protective organization is growing among bankers:

(Special Dispatch to Chicago Daily News.)

Joliet, Ills., March 14.—Protective laws to guard legitimate banking institutions from the effects of depredations committed by speculative and dishonest banks were urged today by H. E. Otte, cashier of the National City Bank of Chicago, and chairman of the Northwestern Illinois Bankers' Association, upon representatives of banks comprised within the association, in its second annual meeting, held here. Mr. Otte's appeal was made in the course of his annual address as president of the association, and was based upon conditions arising during the recent financial stringency.

"The recent panic has shown us the necessity for co-operation in the banking business," he said. "Had it not been for the stand taken by the Clearing House Association in Chicago and other cities, this country would have received a blow to its commerce and industries from which it would have taken long to recover. In view of the recent development of dishoest and speculative bank_g, it must be evident that co-operation is imperative. We must unite to secure the passage of laws protecting and fostering legitimate banking. The group system of organization, with a chairman in every county, is a step to that end."

Under the deposit guaranty plan, the assets of a failed bank would not necessarily have to suffer the grievous deterioration that is pressed upon securities by enforced sale at panic prices, as frequently happens at present. These securities could be taken over and held until proper and profitable disposition of them could be made, a fact that should not be overlooked and that will not be deemed unimportant. But this would not be often necessary for, under the guaranty fund panics, as shown later, would not be frequent.

But the protection of depositors and the reduction of bank failures, while the first, do not represent the principal benefit that would result from the application of the guaranty fund.

It is sometimes urged against the guaranty plan that, if the losses have been as revealed by statistics, comparatively small, there is no reason for making so great a fuss about the matter. This argument is, of course, insincere and surreptitious; however, it is aside from the main point of the problem.

The loss to the depositors by bank failures is the basic and moving element in the situation, but this direct loss is not in any way to be compared to the incalcuable loss to commerce, to manufactures, business men and working men, resulting from panics precipitated by such deposit losses and the fear of still greater losses to come. The great value of the operation of the guaranty fund would be in the sense of security developed on the part of the public and depositors, which would prevent runs on banks and absolutely eliminate those most deplorable failures—many in number—which under normal conditions would not and need not have occurred.

Indeed, if only such bank failures were prevented as those which are caused primarily by lost confidence and consequent "runs," and not by criminally unsound banking, the saving represented would more than justify the adoption of the deposit guaranty.

Thus we have succinctly presented the secret of the currency problem. Deposit insurance is the only key to it. Confidence and confidence alone is behind our money sufficiency and deposit guaranty will bring and retain it. When this great element of value—confidence—is under control, instead of not being under control, as at present, many of our serious currency troubles will disappear.

The invaluable sense of security introduced by the guaranty fund would result in greatly increased if not complete and permanent stability in the general financial situation. Money stringencies would be made less frequent and severe

if they were not altogether eliminated. The confidence of the public, resting upon a solid foundation, would never be disturbed and financial scares would, should they occur, be limited and largely local and transitory in their effect.

I thus reach the proof of the assertion already made that my plan would help to prevent panics. And it would do this in two ways: (1) It would act to keep down unsound loans, which furnish the material for panics, and thus reduce the number of failures; and (2) it would, in any emergency, serve to calm that disturbed condition of mind which starts men into blind runs upon banks in order to withdraw their deposits. Obviously, if the deposits can be obtained from a guaranty fund, there can be no reason for runs and hoarding of money.

Further—and the pivotal point in the whole matter: if prompt payment, carrying with it safety from failures and widespread panic, can be assured at an expense of only 1-10 of one per cent., then the value of the insurance to the depositor, and to the country, would be far beyond the mere protection as shown in the percentage of loss.

In addition to decreasing the number and importance of bank failures and practically eliminating financial panics which are the ghosts that stalk always at the side of the merchant, farmer and workingman—a first result of the operation of the guaranty fund would be to immediately and greatly increase the business and profits of all good banks and likewise facilitate the conduct and steady extension of manufacture and trade.

It would at once place the immense amount of money in hoarding into productive circulation. How much this is, lying in safety deposit boxes, under carpets, in mattresses, etc., hidden away in the homes and elsewhere, it is impossible to estimate, but the total, it is admitted, would be staggering. This great wasted wealth would be forced into circulation at once by the fact that banks would become *absolutely the safest places for its preservation.*

As conditions are, many of the smaller cities and towns do not offer the character of banking facilities and inducements to the public to save and deposit money as they might. Under the guarantee plan, all this would be changed and the strong inducement to accumulate money would reach everywhere and continue constantly and increasingly in force. Savings departments would be added to every bank in the land.

Again, this fact would help to bring out the money now hoarded, viz., that all the people are familiar with insurance and regard it favorably and with confidence in its beneficial operation as to themselves. Our so-called foreign population especially, by whom the greatest amount of hoarding is said to be done, will be influenced by deposit insurance and place their accumulations, immense in the aggregate, in the banks.

Add these hoardings, lost entirely to commerce, to the large proportion of the present bank reserves which could be released for use and there would be injected into the channels of trade many hundreds of millions of new money—almost a billion dollars, it is estimated—almost four times as much as would be yielded by any practical asset currency or other measures proposed, looking to expansion of our circulating medium of exchange to meet the growing needs of commerce; and this without placing a single dollar's weight of new strain upon existing credit in any quarter.

Here is a way to effectually and sufficiently expand our currency that involves absolutely no risk, and that will yield to the banking interests and to commerce, every *year* a manifold greater revenue than will be required to support the insurance fund for a decade.

Funds would be abundant at all times for legitimate business and their control and distribution would be entirely in the hands of experts, and not at all subject to the delirious demands of a stampeded public, whose first and only impulse is to move in the direction of self-protection, no matter what disaster the action might entail.

I quote from a correspondent:

"The large city bank as well as the small country bank have recently faced the 'scared depositor,' and many an experienced banker would have paid ten times the guaranty assessment for ten days' relief from the anxious suspense as to the possibility of a run on his bank. With a guaranty in force and undertsood, depositors would not demand their money.

"No bank is so large that it would not receive a direct benefit from the guarantee of deposits, and no bank is so small that the assessment would be a burden."

The guaranty of deposits is actively opposed upon the ground that it would encourage unsound banking, by putting the speculative bankers upon the same plane of advantage before the public, as to security, as the legitimate banker.

This, indeed, is the most seriously offered objection to the plan. I have become firmly convinced, however, after a careful examination, that this objection is not sound.

In the first place, the penalties and losses of bank mismanagement and failures would continue exactly the same and as effectively operative under the guaranty fund as they are now upon the bank management and ownership. Indeed they would rapidly become more severe, as will be indicated later. Therefore deposit insurance will not *invite* mismanagement which means utter disaster to those guilty of it, any more than such mismanagement is invited now.

Since my first public discussion of this topic I have received many letters and papers upon the subject, particularly during the last few months. Most of the views expressed are able and earnest, many cutting and severe. One goes so far as to assert that

"bankers, as a rule, are not only not concerned to protect depositors by checking unscrupulous banking operations in time, but they encourage actively or passively such failures because there is profit in the spoil that results, which is divided among the remaining banks, the more important in-

stitutions naturally getting the larger share of the depositors, thus left bankless, and also receiving added prestige, as a result of the failure, which acts in the nature of discipline upon the public, teaching us that if we will not have our fingers burned, we had better confine our banking operations to the institutions which we now see to be absolutely sound, etc.

"New York recently had a scourge of discipline of this sort. The bankers decided that it was time to put their house in order; also to give the public a salutary lesson in prudent banking from the individual point of view—the cost to be borne, of course, by those requiring and receiving the discipline.

"Mr. Heinze's compliments to his fellow bankers on this extraordinary occasion may still be remembered."

Extreme views are never welcome and achieve but little more than the passing satisfaction of those who utter them. Nevertheless, it does seem that the New York failures which precipitated the panic could and should in some way have been avoided. They have been a dear experience to us all, and if they contain discipline, let us not fail to take it and profit by it. To my mind they leave us this lesson above all: that in unity there is strength, and that actual provision against panic can be secured only in that way.

The $25,000,000 raised in New York to help stop the momentum of the panic exceeds two-thirds of the entire net losses in all national banks that have failed since the national bank system was adopted. It was raised after great effort by a few men—some say by one man—in times of acute stress.

Would it not be simpler and better to raise such a desirable and serviceable protection fund by the unification of all bankers in its mutual contribution and continuance from year to year by a tax that would be sufficient to enlist active co-operation for its protection?

Place such a fund under government direction for use as a

brake upon panics and the growth of the germs of panics; its service would be continuously far more valuable than was that of the emergency $25,000,000, which is already in history as having rendered such signal aid to the financial and commercial world.

"From a moral standpoint, there is no reason on earth why the government should not pay the depositors in a failed national bank in full, and at once. The government issues the bank a charter; examines the bank twice each year; calls for statements five times every year and has these statements published in the local paper for the depositor to read. The depositor has a perfect right to think that the government is carefully looking after the bank and that his deposit is perfectly safe. It strikes me that your Uncle Samuel should either be responsible to the depositors or that the word 'national' should be stricken out of the name of the bank."

The governments, state and national, have assumed a responsibility in this connection that must be capably discharged. While the terms set forth by this correspondent imply a greater obligation and performance than we would recommend or consider necessary, yet government encouragement should be given to some form of protection, and it would be difficult to find any more effective or conservative than a system of bank deposit insurance, such as has been outlined, supported entirely and safeguarded effectually by the bankers themselves.

An objection comes from the Eastern states that it could hardly be considered fair to impose upon the banks in that section, where bank failures are infrequent, a tax in support of a guaranty fund equal in amount to that assessed against the West, where insolvencies are greater in number.

This objection may seem pertinent but I am convinced that it will not be considered so when all the facts are taken into consideration. In the first place, as the point involved is a matter of a comparatively small amount of money, it may be concluded that, if an equal or greater financial return to the

Eastern banks would result from the operation of the guaranty fund, the cause for this objection would disappear.

An inspection of the industrial conditions of New England at this time and a comparison with the conditions there a year ago would yield some interesting information in this connection. The record of 1893 and immediately succeeding years would also speak significantly of idle factories, suffering and muttering employes and reduced bank earnings. New England is not independent of the rest of the country; it is dependent upon it. So is the whole tier of Eastern states. General prosperity yields its dividends in greater proportion to the East than to the West. Unquestionably, the amount paid into the guaranty fund by Eastern banks would represent the greatest dividend paying investment they have ever made.

But if this objection must be met, it has been suggested that the country be divided into sections, and that each section provide the fund necessary to meet its own deposit losses. This plan may appeal to some; but I do not consider it necessary or wise. It might be well enough to lay a special proportion of the tax upon the banks of the cities in which failures occur. This is proposed in the Fowler bill, and is also emphatically recommended by ex-Secretary of the Treasury Lyman J. Gage, who believes the banks of a community in which a failure occurs should be assessed twenty (20) per cent. of the deposit losses resulting from such failure, as a measure to insure closer mutual organization for protection. Any discrimination against sections of the country however would not be met with favor and would not, I am convinced, be urged when the economic facts involved had been given due consideration.

Somewhat similar to this sectional objection is that of the large bank which complains that its proportion of the tax as proposed is too great, and that it will be paying, in large part, for the security of its smaller competitors. The answer to this is similar to that above. The great bank will be more

than repaid for its outlay by the large proportion of the general increase of business and profits that will come to it, as a result of the operation of deposit insurance. A classification of banks according to size and a varying scale of taxation is proposed by some to meet this objection; but such a method would require careful calculation and would meet many criticisms.

Prosperity—increase of business and profits—would, I am sure, be the compensating offset in each of these preceding cases—and it would be more than ample in proportion to obliterate any disadvantages seemingly suffered.

An objection that is confusing to many is that deposit insurance is impracticable, because a very large proportion of the total deposits in banks (about $13,000,000,000) are not actual cash. like most savings deposits, but represent money loaned by the banks to business men, etc., and which has been re-deposited by them in the banks for use. For instance, if three thousand individual depositors, clerks, workmen, etc., had deposits in a bank totaling $300,000, and this money were loaned by the bank to business men who deposited most of it in the bank to their credit again, the same money would represent both deposits. This process of loaning and reloaning is carried on to such an extent that the actual cash deposits repsesent a very small proportion of the deposits shown on the bank's books—less than one-fifth, it has been estimated.

This being the case, it is said that deposit insurance would insure loans, that is, insure actual cash deposits over and over again. This statement is in error, and is based on a misconception. Deposit insurance is placed against losses to depositors. The cost of the insurance is based on losses, not on deposits. It makes no difference how high the deposits run, insurance, too, it is true, as long as they were figured in the total deposits. The "loan" deposits would be covered by the insurance, too, it is true, as long as they were figured in the total estimates producing the fund tax—and whenever necessary. But in cases of bank failures most of the loan de-

posits do not represent direct losses, as their total is credited on the notes held by the failed banks against these loan depositors. The tax for the fund being comparatively slight, it would likely be found advisable to continue to levy it against all deposits, as a basis of assessment, and draw upon it only for actual losses after all "loan" deposits had been adjusted and all the assets and ownership responsibility of the failed bank had been applied. But how the fund is raised is immaterial, whether by tax on average deposits or on capital stock and surplus or otherwise, it is directed only against losses.

Any fraudulent operation that might be attempted in this or other connection would be well controlled by inspection and safeguarding regulations and penalties.

An objection that is offered to the deposit insurance plan from certain quarters of acknowledged high authority is that one of its bad results will be inflation. Let us see what is meant by inflation and who is responsible for it.

If inflation is meant, as some assert, to describe a condition where money is easy and commerce is booming, when the reduction in the banker's per centum profits is more than offset by their total, then that sort of inflation is, by all of the theories and precedents of finance and commerce, a good thing. Many evils that might result from such a condition of prosperity—over-investment, etc., etc., may not be chasged to the plentitude of money and confidence, but to abuse of the same by a very large proportion of the bankers of the country, in order to make money.

Plenty of sound money in order to provide a fluent and flexible medium of exchange, to facilitate the transaction of business, is what the country has been crying for, for years; and the negative objection of inflation may not be raised with effect or impunity against its attainment. With the means of exchange provided as required and desired, then it is squarely up to the bankers, who assume the function of their application and control, to see that the application is sane and sound and the control complete, at all times. If anything, this

is the great trust held for the country by the banking world, the discharge of which is peculiarly and exclusively its own, for honor and duty, as well as great pecuniary profit.

The claim of inflation cannot very well be applied in connection with the addition of hoarded money to banking funds, at least, not in its technical sense—for the money thus introduced into circulation would not add a dollar to existing legal tender; it would simply bring it out of hiding into circulation.

Certainly, the restoration of these great hoards would mean plentiful money and would lead to increased loans, but that need not, as set forth, mean inflation in any sense, and would not, under the superior, co-ordinated banking that the operation of deposit insurance would develop. The loans would be carefully guarded by interested inspectors and kept sound; in which case the more and larger, the better.

The evils of inflation arise from the fact that when money is plentiful and interest rates easy, the practice is to force it out into profitable use; consequently the boundaries of conservatism are frequently overstepped. They are similarly overstepped, however, when money rates are exceedingly high. The blame for these infractions is now divided between the over sanguine expectations and ambitions of business men and speculators and the cupidity or weakness of bankers. The controlling fact is that the bankers must consent to the loaning of the money, and they are the only ones who can mitigate or correct this abuse. The good banker wants it corrected. The protective measures of deposit insurance would materially help him in this direction.

The inspection applied would be of a kind to effectively restrict or exorcise speculative loans and those which might too greatly discount the future, for it would reveal the total amount of such securities standing in each bank, then in all banks in each city, and finally in the whole country, upon which the word of encouragement or disuasion would be applied and a safe proportion maintained.

What this would mean in the way of keeping down the growth of the seeds of panic, all financiers know. It would contribute this great service to the stability and progress of the country, viz.: serve to keep corporation securities down upon a reasonably sound basis of value and issue, so that the public might be justified in looking upon them as real instead of highly speculative investments, and thus return their money to them, either through the banks or direct. This attained, the deepest and most treacherous pitfall that lies along the course of banking would be removed. Certainly its proportions would be reduced; or, if they were not, with the bankers in full control of the loan and security situation as they would be, the public would know where to look to find and fix the blame for catastrophe. Facts are inexorable and responsibilities must be assumed by those upon whom they properly rest.

But say a reaction should come, in some way, that would result in a money pressure throughout the country or any section of it. What would happen? A very prompt and sane adjustment. For this reason, the banks would control the situation, entirely, and would not be forced to any precipitate action by that overwhelming fear of a stampede of depositors. They would straighten out the matter gradually and effectively, having full control of the lever of adjustment all the time.

The waters in the dry-dock of finance would be held there while repairs to its ship were being made; they would not, as now, be let to run out of innumerable gates, not under the control of the engineers in charge, and all opened at once, and kept open until ship, workmen, and all were floundering toward the bottom.

It is well and truly stated that many of our financial ills are possibly due to periodical over-expansion of bank credits, resulting from inadequate resources, and from the issue of an excessive amount of bank notes and currency. This kind of

inflation would be discouraged by the deposit guaranty in two ways, first it would remove its excuse, which is to supply needed money or medium of exchange; second, it would put a guard upon it—an impassable guard in every city. So that it may be said that inflation, instead of finding a stimulus, would find its antidote in deposit insurance.

That competition will be quickened in the banking world is admitted, or rather, is submitted as another one of the benefits of the plan, from the bankers', as well as from the public's point of view. Competition is the life of trade and represents the operation of the universal basic law resulting in the survival of the fittest. Its stimulation will bring its benefits to banking as well as to merchandising.

But the strong banker claims that he will lose prestige and that this will mean that the fruit of his many years of sound and successful administration will be taken from him by making the new bank and the small bank as strong as his own.

This sounds like a reasonable objection. While it is not, however, really pertinent to the subject, as it directly concerns the bankers' and not the public welfare, it merits examination, to determine upon what ground it rests.

In the first place, *need* the great banker lose any business where he is rendering fair and proper service? How can he lose it? Especially in view of the many natural and acquired advantages held by the large and the old over the new and the small banker?

He can lose business permanently only by an offer of better returns made and fulfilled by other bankers. So long as other bankers can do this and keep the integrity of their institutions and their management above reproach, under the scrutiny of the interested eyes of their powerful and all-seeing competitors, the change will represent a public benefit. If the rate of interest offered and paid by any bank or banks is too high for successful and sound management the danger signal is raised automatically over those banks and held there during the entire period of their operations and watchful sentries hem them in on all sides.

Self preservation will operate here to control venturesome banking and it will control or eliminate it, as sure as the law of gravity draws all physiial matter steadily and unerringly and effectively toward the center of the earth.

This fact will assuredly operate in favor of sound banks, viz., that the plan proposed implies the transfer of deposit accounts from failed banks to sound banks, as a means of converting them into ready money.

The knowledge, soon generally disseminated, that at times depositors were required to wait in order to properly locate their accounts with other banks, or that some bankers evidenced a disinclination to accept books coming from any certain bank, would be at least one element which might make for precaution and lead depositors to be careful in the selection of a bank to do business with.

Conservative banking operation will still yield its dividends as well as that of soundly progressive character, and if the great bank loses its business it will be because it has failed in service, notwithstanding its superior advantages and its already large earnings in the banking field.

Aside from all this there is the great increase of business already referred to and which would come proportionately, if not chiefly to the great banks, and which would be held as long as to their services to and treatment of customers justified it.

And here it may be said that nothing less than absolute assurance of safety will bring out this hidden money. It will not come out upon the offer of approximate security, however seemingly impressive—only absolute security, such as is offered by deposit insurance will draw it forth.

HON. H. M. ZIMMERMAN.

WHAT ARE THE POSSIBLE BENEFITS OF SUCH A PLAN TO OUR STATE BANKERS?

Is this not the first and natural inquiry to be made by a state banker? Will the plan under discussion, if adopted, place the state savings bank in the same position of advantage

that the commercial banks appear to occupy, and place them on a level with postal savings banks in the event of their establishment, so far as the security of deposits is concerned?

Is the subject under discussion not too important to be lightly set aside without thorough investigation and discussion from this standpoint?

Other considerations promptly arise. Would a plan such as is under discussion bring back to Michigan Banks the large volume of money that has found its way to Canadian banks under the mistaken idea that deposits in such banks are guaranteed? Does not this condition of affairs suggest that something be done to preserve the confidence of the depositors in our banks in times like the recent panic?

It must be conceded that the large body of savings depositors is very timid and easily frightened, tho' no real cause may exist for such a state of mind. If this sensitiveness on the part of the depositors could be overcome, do you think it would bring from hiding a large amount of money and prevent hoarding? Does it not seem to you that the confidence of the depositors would not be so easily disturbed by failures in New York or San Francisco if absolute safety of their funds was assured? Would it not appear that our banks would not be obliged to carry a greater reserve than the law now requires, in anticipation of unusual withdrawals of deposits in times of financial unrest? Would it not relieve the banks from paying a large premium for currency in case of a financial stringency in order to accommodate their patrons?

When all these questions are taken into consideration would not the establishment of a plan such as is under discussion not only assure the depositor of the safety of his funds, but also afford greater business and profits for our banks in consequence?

Some perhaps will say that while it would seem that most of these questions should be answered in the affirmative yet there are certain objections to the plan which are unsurmountable.

OBJECTIONS CONSIDERED.

The objections which are made by those who oppose the proposition can be summed up as follows: That it would encourage speculative and "wild-cat" banking; that it would bring all banks to the same low level at the expense and loss of prestige or business of the strong bank; that it would really be a case of the provident taking care of the improvident; that it would tend to destroy the individuality of both bank and banker; that it is objectionable because it savors of socialism and paternalism.

Let us briefly consider these objections and see if they are really as serious as they would at first appear. The first three objections raised, namely,—that the establishment of such a plan would encourage speculative and "wild-cat" banking; that it would reduce all banks to the same low level, and that it would be a case of the provident taking care of the improvident, may be considered together, since an answer to one of these objections would answer all.

Well considered legislation providing for guaranteeing savings deposits of our banks would naturally include additional safeguards to our present banking law. For illustration, it might confer summary authority on the attorney general and commissioner of banking to eliminate from the guarantee fund such banks as in any manner violated the law in the conduct of their business. This would go far toward preventing mismanagement or lax banking. In addition it might be provided that a committee, chosen by the banks contributing to the guarantee fund, might have access to the examiners' reports of the condition of various banks as filed with the commissioner. Thus the pecuniary interest which all solvent banks would have in eliminating doubtful methods and unscrupulous banking, would lead them to use all their power and influence to maintain and establish the highest standard of banking. If this assumption is true then it would seem that it would not be a lowering of all banks to a common low level,

but quite on the contrary raise all banks to the same high degree of banking. This would be in the nature of a corrective remedy applied by some of our clearing house associations, and in all probability would operate in the same practical way.

After the collapse of the Walsh institutions, I am informed, the clearing house committee of Chicago adopted substantially such a plan. Instead of having such authority limited to the banks of a city, why would it not be practicable to extend it over the state? Under such a system I firmly believe speculative and wild-cat banking could not exist. Thus through this process the improvident banker would be eliminated. Besides such additional safe-guards it is safe to say that the stockholders fear of losing their original investment, together with any additional surplus that may have accumulated, and the possibility of standing an additional assessment equal to the par value of their shares, would continue to be a strong deterrent to reckless banking.

In answer to the next objection, namely, that it would tend to destroy the individuality of both bank and banker, it may be said that the integrity of the large banks and more conservatively managed institutions would be uninpaired, since all banks would still exercise every honorable effort to solicit business by offering to extend greater accommodations, better banking facilities, more courteous treatment of its patrons and the like. I do not think that the business of our banks is solicited today on the strength or representation that the banks soliciting is stronger or safer than any other existing and governed under the same laws. Therefore, would it not seem apparent that it is folly to say the individuality of either bank or banker would be hampered in any way? Conservative and well managed banks would still yield proper dividends.

That the proposed plan would be objectionable because it savors of socialism and paternalism is hardly tenable. If this plan is socialistic, then is any plan which might be adopted between individuals or corporations effected for the mutual

benefit of all. It should be kept in mind that banks are in fact semi-public institutions, and in law their first duty is to accommodate the public, and that duty may well be compelled. The state which creates a corporation has the power to fix the conditions upon which it may do business. In case of a bank it has power to say, and it does say, you must have so much paid in capital, you must keep so much on hand or on deposit as reserve, you must submit to examination and pay so much for expense thereof. Other duties of like character are imposed, yet in the legislation requiring the performance of such duties it has never occurred to us to say that it savors of socialism or paternalism. There is no greater reason then, in my opinion, for saying that the plan proposed would be any more subject to criticism on that ground, than the laws already upon our statute books. The objection raised might be further answered but an elaboration, it seems to me, is unnecessary for the purpose of this argument.

LETTERS OF JOHN H. BOYS AND WALTER H. DEWEY.

Carnegie, Okla., Sept. 16.—[Editor of The Tribune.]—I was interested in THE TRIBUNE'S comment the other day on the Oklahoma bank deposit guaranty law, and you will pardon my calling your attention to what seems to me to be erroneous conclusions due to wrong premises. You urge that the guaranty law is conducive to reckless banking, in that bankers operating under this law will pay too high interest for deposits. You are doubtless not aware that this proposition is provided against by a limitation in the interest rate. State banks are allowed to pay not more than 4 per cent. on deposits, whereas the national banks in competition with us can pay 6, and do as a matter of fact pay 6 to a considerable extent. I believe it is a fact that the depositor will place his money in a state bank at 4 per cent. rather than a national at 6.

In a neighboring county seat town a First National bank has surrendered its charter and taken out a state charter.

The largest national bank in a nearby town is changing to a state bank, while in Enid one of the largest banks there has made the change. You will agree that bankers would be slow to make such a change if they were not pretty thoroughly convinced of the efficacy of the state banking law of this state.

I believe statistics will show that 90 per cent. of bank failures are caused by the borrowings of officers of the bank for the exploitation of personal affairs. The law in this state bars an acting bank official from borrowing funds from his own bank. The guaranty proposition may be more or less experimental, but it is entitled to a test on its merits.

JOHN H. BOYS,
Cashier Farmers State Bank.

Chariton, Ia., Sept. 17.—[Editor of The Tribune.]—I notice a letter from J. Heistand of Mount Morris, Ill., in which he says "There is no demand for his (Bryan's) bank scheme, where at present but a fraction of 1 per cent is lost by depositors. Less than a year ago the largest bank in this town closed its doors with $1,000,000 due depositors. The business of the town and county was prostrated. Many well to do people lost large sums of money. The school district, and the city, and the county all had thousands in the closed bank and all were embarrassed for funds, but this was little compared to the distress and suffering brought to several old men and women who had $100 or $200, or possibly $500 each in this bank—everything they had in the world—and too old and wornout to earn hardly anything, almost too proud, but finally compelled to ask the county for help.

I know of one man who had sold his farm and personal property the week before and put all he had in the bank, intending to start west with his family to a new home in a few days, and he did not have money to buy the railroad tickets. A page of your good paper could be filled with accounts of the trouble and distress caused depositors.

Could Mr. Heistand have seen all this he would never say there was no demand or call for guaranteed bank deposits.

How little it would have cost each of us 90,000,000 Americans to make this failure good. I am sure I would be glad to pay my small share directly or indirectly to prevent such a misfortune at Mount Morris or anywhere else.

WALTER H. DEWEY.

MILWAUKEE NEWS.

May 23, 1908.

Milwaukee News, May 23, 1908.—It appears from a Guthrie, Okla., dispatch that "within one hour of the time H. P. Smock, state banking commissioner, had taken charge of the International bank of Colgate, he had authority to pay the depositors in full, though the bank's cash and available funds in other banks fell $23,000 short of the total amount of deposits. The commissioner was enabled to do this under the operation of the new banking law."

We may imagine that it would be difficult to convince the depositors in the failed bank that insurance of bank deposits is a fantastic and wicked invention. When it was found that the bank was insolvent, the state banking commissioner took charge of the institution and issued to depositors his checks on the guarantee fund in the state treasury. There was no run on other banks—no disturbance.

There will be no wait of months or years, while the lawyers and receivers and courts are eating up the assets. The depositors have been paid. The food for the sharks will be the stockholders that permitted the mismanagement that brought about the crash. The depositor is protected. If anyone is to lose, it will be those that reap the profits from the business when there are profits to be had. The depositor is not to be caught "coming and going."

This is the kind of banking reform that does not appeal to the bankers as a class. What they want is "currency reform," with the privilege of borrowing money in unlimited quantities from the federal treasury at a nominal rate of interest.

That is "financeering." Insurance of bank deposits for the security of the depositor is dangerous and detestable "paternalism"—or something worse.

Insurance of Bank Deposits. Jas. E. Schow.

Before Bankers' Annual Meeting, Jan. 23, 1908.

About six years ago I ran across a copy of the proceedings of the Wisconsin Bankers' Association meeting held in Milwaukee and therein saw a paper on the subject of insuring bank deposits. I wondered why the idea had not occurred to me before as it seemed such a simple proposition and of such vast benefit to all the people. I also wondered why it had not been adopted many years before. I commenced then to study the question and have talked it to nearly every business man I have met since that time. The conclusion I have come to is that the National Government should guarantee every dollar on deposit with National banks, assessing any losses it might have on the national banks in proportion to the average amount of their deposits. Any other method of assessment would not be fair, as it is the deposits you are insuring.

Now if we had this insurance feature in force in this country, no depositor could ever lose a dollar by depositing with any bank. The great advantages to the depositor are apparent.

We would never again hear about the widows and orphans having all their money in a certain bank and that bank failed, making them penniless.

We would not again hear of the rising young business man working hard for years, and accumulating a nice business, only to be swamped by the failure of some bank.

We would not hear of the old established business man who had gone through life successfully, and retiring on what he thinks is a competence for the balance of his life, only to wake up some morning to again find himself a poor man through the wrecking of some bank.

There are people robbed and murdered nearly every day in

this country for their money which they are afraid to deposit in banks, thinking it safer to hide it about the house. These robberies and murders would not happen very often if deposits were absolutely safe as this money would then be in the banks.

We would not read every day of money being burned up and otherwise destroyed because of hiding it in an old stove, tea-kettle, in the attic, etc.

We would not hear of a lot of suicides which are now continually being caused by bank failures.

We would not have the spectacle of good solvent banks failing because of some scared person starting a rumor about the bank.

We would not see good solvent business enterprises going to the wall and good business men ruined, and the business of the whole country ruined, because the banks having plenty of money on hand, cannot or will not loan any more for fear the people being scared might at any time make a run on the bank.

If this insurance feature were in force no solvent bank could fail as any bank that had the assets could dispose of them and realize cash as well at one time as another. This would steady business, would prevent panics at all times and would prevent the so-called hard times in nearly all cases. Of course, we might still have some business depressions through crop failures.

If the depositors were absolutely protected by this mutual insurance plan guaranteed by the government there would be no more agitation for the postal savings bank.

This is one good reason why every country banker should favor the insurance scheme, as postal savings banks, under any scheme that could be devised, would drain the country districts of its money and this money would all go to the large money centers, thereby reducing or doing away entirely with the small country banker.

If the insurance scheme is adopted there will be no neces-

sity for any emergency currency or central bank, as the amount of currency being practically stationary at all times and business being steady the interest rates can be depended upon at all times to properly regulate conditions.

If money is needed more in one locality than another the higher interest rates there prevailing will draw the necessary funds and it will later work its way to other localities.

In regard to the expense of insuring deposits I wish to say that I fully believe the banks will get back a great deal more than they would pay out in premiums. In the first place there would be a large increase in the business of each bank. It would also be worth considerable to feel that you are practically safe from any run on your bank. You would also be insured against any loss on the reserve you might have deposited with other banks. This is quite an item as you may have a bank with $10,000 capital and have $20,000 on deposit with a reserve agent, and if the reserve agent closed up it would tie up all your capital and $10,000 of your depositor's money. This would either close you up or cripple you very much through no fault of yours.

Now then in order to go into the banking business you must first invest a certain amount of capital. Now if that bank does a careless or reckless business it would have losses from time to time and would not make money, and it would be foolish for one to invest capital where he got no returns. Not only that, but the bank would soon fail, in which case the capital invested would be lost and the owners would be liable for a like amount, so I do not see how it is going to make banking methods any different than they are at the present time.

Now if all banks were assessed to pay the losses of failed banks would not the bankers themselves insist on stricter laws than we now have. Would they not insist that examiners compel banks to close up or make their capital good whenever the capital of any bank became the least bit impaired. If this

is done there would be no premiums to pay unless a bank was looted very badly between examinations.

I believe the banking laws would become so strong that it will be a rare thing indeed to hear of a bank failing badly enough to lose more than its capital stock.

The Governor of Kansas has called a special session of the legislature to pass an insurance bill of this kind, after being urged by the bankers there to do so. I believe the bankers of this state should urge our Governor to call a special session immediately to pass a bill of this kind.

A great deal of credit has been given to the bankers for their masterly way of handling the present financial trouble but if any other business man tried to handle his financial troubles in the same way he would have a receiver appointed for him very quickly. I believe most of the credit should be given the newspapers and the balance to the public. The big banks could not and would not pay their obligations on demand as they were expected to do and I think it is with very poor grace that they should oppose a good measure of relief after such a performance as they have made.

The people seem practically unanimous in the opinion that the present panic was caused entirely by our faulty banking system, and they are determined that something practical must be done. I believe that if we add the insurance feature we will have the best banking system in the world.

It seems that the present U. S. Senate will not give what the people want, rather preferring to pass some bill which will benefit the larger banks and fool the rest of the people. This will make no difference, however, if every state will pass a good law protecting depositors, as all national banks will then have to become state banks or lose their business.

We must bear in mind that this law, when passed, must absolutely satisfy all depositors that they can get their money any day they want it, regardless of any conditions that might exist, if we are to get the full benefit of the law. It is the business of the country we wish to protect more than it is the

mere paying of losses to depositors, but in order to do this we must first make deposits as good as national bank currency.

Look at the panic of 1893–94 when every bank that could tripled their cash in vault, and tripled their cash with reserve agents, pulling this money all out of their borrowers. This alone was enough to account for eighty per cent. of our trouble at that time, and these are the things we should aim to avoid in the future.

Message of Governor E. W. Hoch to Kansas Legislature, Jan. 16, 1908.

The events of the last few months throughout the entire country have emphasized the need of some banking legislation that in times like these shall inspire increased confidence in depositors and prevent the unnecessary hoarding of money by banker and people alike. The so-called panic which has disturbed business conditions in every State in the Union has been a bankers' panic more than a people's panic. Apparently they have had less confidence in the people than the people have had in them, and yet under all the circumstances both have acted admirably. An anomalous financial condition exists in Nation and in State. With an abundance of money in the country, with the products of mine and farm undiminished, with all the elements of unparalleled prosperity abounding on every hand, with no real cause for it except the fictions of finance, there is an unnatural and unnecessary depression of business. Statesmen and financiers are everywhere seeking cause and cure. An asset currency, a more flexible system of finance, an increase of circulating medium through otherwise unnecessary bond issues, and various other remedies, have been suggested by the savants, but with remarkable rapidity the thinkers are turning to the simple remedy known as the depositors' guaranty fund proposition, and partly to consider this specific proposition you have been assembled in extraordinary session.

It is not primarily a bankers' proposition. It is a depositors' proposition, because there are hundreds of depositors to every

banker, and their interests are really paramount. Banks are a modern necessity. They are essential not only to modern commerce, but they touch government at vital points. Among the gravest dangers of present conditions, when bankers and people alike are hoarding money, is the danger of a wave of crime. Such times multiply crooks and contribute to robberies and murders, making money and life alike insecure. It is therefore a governmental problem. But while the guaranteeing of deposits is primarily a depositors' and governmental proposition, it will contribute immensely to the peace and happiness and ultimate prosperity of the bankers as well. They have learned in recent months, better than ever before, I think, the vital importance to them of the confidence of their depositors in the safety of their deposits. To strengthen and increase this mutual confidence they have called in their balances from reserve centers, collected closely outstanding loans, made new loans sparingly and reluctantly, and piled up in their vaults a reserve unprecedented in the history of the State. This is reassuring to depositors and has largely restored confidence, but it is an abnormal condition and can only be continued to the serious detriment of all manufacturing, agricultural and large commercial interests. A depositors' guaranty law, it is believed by many of the ablest financiers, will give depositors perfect confidence in banks and permit the bankers to liberate these hoarded millions into the channels of commerce, where they are greatly needed. This guaranty proposition is a simple and fundamental one. When the individual borrows money from a bank he is properly required to give satisfactory security for it. When he loans his money to the bank, which he does when he makes a deposit, why is he not also entitled to ample security? He has the security, of course, which the character of the bank and its managers and certain provisions of the law give him, but this is not sufficient. This is not considered sufficient by the national government, which requires a deposit of bonds to secure bank note circulation; this is not considered sufficient by the State, which re-

quires municipal bonds, dollar for dollar, to secure all of its deposits; this is not considered sufficient by the counties, which take similar precautions to protect themselves; and this does not satisfy the intelligent depositor, neither does it any longer satisfy the thoughtful banker, as the great mass of letters and telegrams now in my possession from the bankers of Kansas asking for a depositors' guaranty law abundantly proves.

Certainly what the country has needed in this recent emergency has been confidence not currency. There is plenty of money in the country, but it has been withdrawn from legitimate channels of trade. More than 200 millions of dollars have been withdrawn from the national banks alone of the country, and the experience of the national banks has been shared also by the state banks everywhere. What we need, therefore, is a policy that will bring all this money out of hiding back into the banks and into the channels of trade, together with the countless millions which for similar reasons have always been hoarded by timid people. I believe the depositors' guaranty law will do this.

Several measures of this kind guaranteeing deposits in national banks are pending in Congress, including a bill introduced the past week by the chairman of the committee on banks and banking in the House, Mr. Fowler, of New Jersey, a copy of which is in my possession, and similar bills by Mr. Reeder and Mr. Campbell, of this State, Mr. Norris, of Nebraska, Mr. Davidson, of Wisconsin, and others. Should Congress pass a depositors' guaranty law, it would, of course, relate only to national banks, and in Kansas would benefit only 200 of our 900 banks, while the proposed state law would include national as well as state banks. The chief opposition among the bankers of this State, as the correspondence of this office will show, has come from national bankers, largely growing out of the impression that the Comptroller of the Currency would not permit them to participate in the benefits of a state depositors' guaranty law, thus giving the state banks, as they are frank to say, an advantage over them. This is indirectly

a very strong argument in favor of the proposed legislation, for such a law could not give the state banks an advantage unless it strengthened the confidence of depositors in them; and is it possible that the State should for any reason withhold from 700 of its own institutions any public confidence which the law can confer? Suppose Congress should pass a law for the exclusive benefit of national banks. In what predicament would the state banks then find themselves? Is not our proposition far more just and fair, inasmuch as it proposes to admit national as well as state banks to participate in its benefits? I have direct information from the Comptroller, bearing date of January 13, that the right of national banks to participate in a state guaranty law has not been decided and that no ruling of this kind has been made by the Comptroller of the Currency, and I have received a long letter, under date of January 11, from ex-Comptroller Dawes, favoring this guaranty proposition. It is my desire that both national and state banks shall equally share the benefits, and it goes without saying that any law enacted should contain this provision. Let the participation under this law be voluntary, but let it apply to all banks, both national and state.

The necessity for immediate action in this matter, creating an emergency alone justifying this extra session, in addition to the financial considerations discussed above, is found in the fact that our sister State of Oklahoma has enacted a depositors' guaranty law, to take effect in a few weeks, jeopardizing the deposits of many of our border banks and indeed many of our interior banks, as these bankers themselves write me. Prompt action on your part for their sakes seems imperative.

III. NEGATIVE ARGUMENTS.

OBJECTIONS.

Guarantee of Bank Deposits. A. H. Revell. Page 70.

It will encourage speculative and wild-cat banking.

It will reduce all banks to same low level and thereby mean a serious loss of prestige and business to the strong bank.

It will be unjust to the strong bank to require it to contribute to the support of small or weak banks.

It will be unjust to bankers of one section of the country where bank failures are infrequent to be taxed to cover losses in those sections where failures are more common.

It will produce inflation.

It will insure loans.

It is unnecessary.

It is impracticable.

It is socialistic.

It will destroy discrimination and individuality in depositors.

Brooklyn, N. Y. Eagle, July 19, 1908. Quoting from article of Professor J. Laurence Laughlin.

The question of the guaranty of bank deposits has aroused widespread interest and discussion in banking circles since it was adopted by the new State of Oklahoma. The subject is scientifically treated, with many of its weak points brought out, in a recent article in Scribner's Magazine, by Professor J. Laurence Laughlin. Extracts from the article follow:

"The plan for insurance of bank deposits is urged by its advocates as one which will induce more careful banking, because contributors to the fund will be more vigilant, in acting as policemen over other bankers, and stop illegitimate methods in their inception. On the other hand, its opponents claim that it will reduce the best managed to the level of the worst managed bank, and remove all premium on skill, honesty and ability. Obviously, the deposits of a bank are as safe as the value of the assets in the loan item; no more, no less. Apart from fraud and stealing, what is bad banking? Clearly, it is the lending of too much to favored, or inside, parties; and the inability to know good from bad paper, and 'quick' from tied-up investments.

"Every conceivable reward should exist to bring pressure on a banker to have courage in declining questionable loans. The moment such pressure is removed, the opportunity is enlarged

for taking on assets, which, at the first real emergency, will crumble in value, and leave the depositors unsecured even by long and difficult liquidation. Therefore, to relieve the banker from the logical consequences of his own mistakes, of his own weakness, is to take away practically the only real safeguard effective on human nature in a business touching the trusts of countless financial interests.

"The result of such a guaranty would, in my opinion, tend to put a premium on the "popular" and "obliging" banker, as against the careful and judicious banker; to spread throughout the country the influence of men who care more for bigness than safety in their accounts; to build up credit unsupported by legitimate trade; [to build up credit unsupported by legitimate trade] and in the end would bring on financial convulsions proportional in disaster to the extent of the doubtful banking. Not only would it be unjust to ask the efficient to meet the losses of the inefficient, but it is poor policy to stimulate the inefficient to try to do that for which they are unfit.

"An essential difference between banks in management, stability, conservatism, and success, cannot wisely or justly be wiped out, without losing the very elements of safety and permanence in our business relations. A great bank with a large capital and surplus affords a wider margin of safety to deposits than can be afforded by a small bank; and the large bank will draw deposits for these very reasons. Moreover, depositors in practice keep their deposits where they are likely to be able to get loans from time to time; and an examination of figures in any commercial bank would probably show that, during any given season, some large depositors had been owing the bank about as much in the form of loans as the bank was owing the depositors.

"Since the guaranty of deposits will not prevent the materials for a crisis gathering; since it will not advance sound banking methods; since it is unjust to legitimate bankers; and since all the benefits to be gained by it can be secured by a proper note issue (which would mitigate runs), or

by better methods of banking, there is no great reason for going into a scheme which is as distinctly socialistic as this one. Moreover, among the means of securing better banking is the improvement of national bank inspections.

"At present appointments as inspectors are made for political, and not for expert, qualifications; nor are the fees, assignments and frequency of examinations what they should be. The Clearing House Associations, in default of proper national inspectors, and also to aid in legitimate banking by state banks and the trust companies clearing through their associations, have established inspection agencies of their own, which have proved remarkably efficient in securing safety to the community from failures. Such action is worth all the guaranty schemes ever born in giving protection to depositors, and it is done in the only business-like way practicable. The example set by the Clearing House Association of Chicago, after the Walsh failure, is being followed in other cities.

"When examined from the point of view of technical insurance principles, the guaranty method is not impossible of treatment for the hazard incurred. Any uncertainty can be insured, provided the premium is large enough. It is said that companies already exist ready to insure deposits at one-fourth of one per cent.; but they evidently expect to choose the banks. And just here arises the central difficulty. In ordinary fire insurance, one enters it voluntarily, and one gets a different rate according to the differences in the moral and physical hazard.

"Yet in the guarantee of deposits all banks are forced to enter the scheme. If a group of banks of high standing voluntarily chose to insure each other's deposits, because they had confidence in each other's management, that would be a different thing from the plan generally proposed. Moreover, the parallel with which fire insurance risks pay the premium, and the insurance of deposits, in which the depositor does not pay the premium, does not hold. As a strictly insurance question, it should be left to the insurance companies and the depositors.

"If the guaranty is desired for the immediate redemption of all deposits in failed banks in any crisis, a very large fund in cash would be required. For deposits in national banks alone, a 5 per cent. fund would be about $216,000,000—a sum too large to be allowed to lie idle in cash. If invested in bonds, it can no longer be regarded as available for immediate redemption. In fact, the aim of immediate redemption as already said, seems to have been dropped. If, on the other hand, the guaranty is intended only for ultimate redemption, after the bank's assets have been liquidated, it will not materially change existing conditions, and will not give ardent advocates of deposit insurance what they are clamoring for—the immediate control of their funds in failed banks.

"Of course, it might be said that, if ultimate redemption were assured, deposit accounts in failed banks would become negotiable, like any other delayed payments. But the same is true now; the accounts in the suspended Knickerbocker Trust Company were bought and sold; and the price should properly vary with the time of discount, and the risks involved. The error of the insurance theorists is in confusing ultimate with immediate redemption and arguing that if a small fund is needed for the former, the latter can be as easily provided for. The mistake is patent.

"The appeal to history gives the plan no authority. We have had experience with a guaranty of deposits in New York under the Safety Fund Act, April 2, 1829. The conditions of the country and the understanding of banking were such at that time that the lessons from that experiment cannot have very much value. Then, there was held only one reserve for both notes and deposits. Expansion of loans in those days meant, in the main, an expansion of notes. The safety fund was, therefore, a protection to both notes and deposits; but as business was then largely done by notes, its service was such as would be rendered to-day by a guarantee of deposits.

"What then was the outcome? The fund was established by levying a tax of ½ of 1 per cent. on the capital stock, until

a fund of 3 per cent. was reached. After eight years, the fund was tested by the crisis of 1837, when there were ninety banks in operation with a capital of $32,200,000. All the banks suspended, and the act itself was suspended for a year. Again, in 1840–1842, the system was put in test by eleven serious bank failures. Thereupon, in 1842, it was decreed that the fund should hereafter be used only for the redemption of the notes of failed banks. The experience of Vermont and Michigan is still less satisfactory.

My view of the question is that a bank protects its depositors more by prudent investment of its funds than by having to assist in making good losses of other banks arising from unwise investments and bad loans. Banks conservatively managed do not require any guarantee. It is only the untried and incompetently managed institution that needs such artificial aid. I agree with Mr. Frame that the government guarantee of deposits would undermine the healthy constitution of our conservative banking system, and with Mr. Forgan, president of the First National bank of Chicago who sees in such creation of artificial credit, a lever for disaster.

Illinois Bankers Association, June 11, 1908.

Guarantee of National Bank Deposits. James B. Forgan.

In the recent public discussion of this question those who have undertaken to answer it in the affirmative have used very plausible arguments, which will undoubtedly appeal to many, who, without going thoroughly into the equities of the proposition, desire to be relieved of the necessity of discriminating between one bank and another and to have the assurance that their deposit is absolutely safe in whatever bank it may be placed. This would not be for the good of the public. It would put the people to sleep and give the rogues full scope. It is not a good thing for people that they should be treated as children or non-entities and relieved by their government of the necessity of exercising ordinary judgment and discretion in their personal affairs. It would certainly not tend to

improve either their business acumen or their social efficiency.

So far as the purely business community is concerned, to be relieved of the necessity for such discrimination could not fail to have a most demoralizing effect, tending to general carelessness and looseness in the management of business. The entire credit system on which the business of the country is built up has its very basis in the business man's discrimination.

Let us analyze the relations existing between banks and their customers and ascertain if there is anything in that relationship to justify the proposition that in the banking business the good should be taxed to pay for the bad; ability taxed to pay for incompetency; honesty taxed to pay for dishonesty; experience and training taxed to pay for the errors of inexperience and lack of training; and knowledge taxed to pay for the mistakes of ignorance.

It has been charged that bankers opposed to a guaranty of deposits put the interests of their stockholders above the interests of their depositors and that they are essentially selfish in so doing. Those who make this charge take an erroneous view of the relations existing between a bank and its depositors. The depositor invariably gets a *quid pro quo* for the use of his money. This may be in the shape of interest on his balance at a rate agreed upon; or it may be in the facilities which the bank affords him in conducting his business, such as collecting for him customers' checks drawn on points all over the country and supplying him with exchange and a convenient method of paying his debts. Furthermore in connection with commercial deposits there exists an understanding in regard to fully 75 per cent. of them that the customer will not only be a depositor but a borrower. It is well understood that the average deposit kept should be in proper proportion to the line of credit granted. All customers are not borrowers at the same time. Each season has its own set of borrowers, so that at a time when customers in one line of business are repaying their loans, others in another line of business find it necessary to borrow. This is strikingly illustrated by the seasonal require-

ments of the agricultural implement manufacturers and the grain merchants. The former collect from the farmers as soon as crops are marketed and pay up their bank indebtedness incurred during the Spring and Summer to enable them to produce, sell and deliver the implements to the farmers; the latter, i. e., the grain merchants, borrow to buy and pay for the farmers' grain as soon as it is ready for market and to carry it through the Winter. They repay their indebtedness again in the Spring just at the time when the agricultural implement men have to borrow. So it runs all through the various lines of business. Large customers in certain lines accumulate large bank balances just when those in other lines are large borrowers.

The following figures recently taken from the books of The First National Bank of Chicago show the relation existing between that bank and its customers in regard to their deposits and their loans. In round figures the bank has from its customers a total of commercial and personal deposits

amounting to $38,000,000 00
and the total loaned to customers who are also
depositors amounts to 50,000,000 00

so that the bank's loans to its regular customers exceed their aggregate deposits by.....$12,000,000 00

These figures show that a very large part of the bank's deposits is based upon loans made to depositors. Of the loans amounting to $50,000,000.00 about $10,000,000.00 could be made immediately available for liquidating an equal amount of deposits by simply returning to the depositors their own obligations as an offset to the amount at their credit. These figures are, I believe, a fair index of conditions prevailing in connection with the deposits and loans of all commercial banks in the large cities of the country. It is, therefore, evident that the relation existing between a bank and its depositors is purely one of contract, and the depositor has no claim on the bank other than to have the contract fulfilled.

This being the case, a banker cannot possibly serve the interests of his depositors better than by carefully looking after the interests of his stockholders. In the management of his business he cannot possibly separate the interests of his stockholders from those of his depositors. It is equally in the interest of both that the bank should be kept strong, liquid and clean as to its assets; that its management should be conservative in regard to loans; and that proper banking principles should be strictly adhered to. The suggestion that a banker can put the interests of his stockholders above those of his depositors is therefore absurd. It is on the stockholders that losses resulting from his mistakes will first fall, and if their interests are protected so that their investment is secure no possible loss can befall depositors.

In a former utterance on this subject I argued that a bank's good-will is one of its valuable assets, and I have been criticised for making such a claim and told that "it is difficult to conceive of a more selfish argument." I claim that the strong, well-managed and conservative banks of the country, be they large or small, have a standing and credit with the public, on which the value of their good-will is based, which are not accorded to the weak and badly managed institutions. Discrimination as now exercised by the public deters to some extent the dishonest from engaging in the business, or at all events prevents them from succeeding in it. Discrimination of the public, like everything human, is not perfect, and the unworthy do occasionally become established in the business of banking and appear to flourish, but they never meet with permanent success. Many banks have made for themselves excellent records and have built up good reputations which form the basis of a good-will on which the investing public places a tangible value, not merely in sentiment, but in dollars and cents. This good-will, such banks as enjoy it are not willing to have swept away by legislation of a socialistic character. It would be confiscation of the vested rights and property of their stockholders and practically confiscation of character. Nor are such banks willing to be taxed for the purpose of being reduced in public

estimation to the same level with those that have neither record, reputation nor consequent good-will to commend them.

It has been stated in an argument against what I have thus claimed that "good-will is largely an advantage created by law," . . . "that the good-will which I measure in dollars and cents is not entirely due to good management," but to the fact that national banks are organized under the National-Bank Act and "are inspected and regulated by law." It is not I, nor any other executive bank officer, who measures the good-will of his bank in dollars and cents, but the discriminating and investing public. This is only one of many confusions of ideas that appear in the plausible arguments of those who discuss the subject without a practical knowledge of it. As all national banks are organized and operate under the same law and are subject to the same governmental regulation and supervision, and as the good-will is not measured by the investing public, in the same number of dollars and cents in each instance, it is evident that the law, under which they all operate, and the regulation and inspection, to which they are all equally subject, have nothing whatever to do with the varying value of the good-will.

I quote the following from an article by Mr. S. S. Cook of Minneapolis, which forcefully expresses that for which I am contending:

"When a banking institution appeals to the public for deposits upon what ground does it solicit the necessary confidence? Briefly these: (1) Amount of capital; (2) accumulation of surplus; (3) personality of the management. The amount of capital with its stockholders' liability suggests financial strength. Surplus, especially if earned, denotes capable management and wise provision for possible emergencies. But it is the third element—personality—which constitutes both foundation and superstructure of every banking institution that ever existed or ever will exist. Unless a banker be a man of more than ordinary capacity, possessed of a keen sense of responsibility and absolute integrity, he cannot long maintain

himself or his institution and disaster will fall upon him and his depositors. Shall we say to this class of men that henceforth the deposits in their banks shall be no safer than in the banks of their competitors who may be men of less ability, whose sense of responsibility is dulled by selfishness, and whose standards of honor are low? And in addition shall we demand that they assess themselves to pay the creditors of the latter class? But that is what guaranteeing of deposits means."

The following from an editorial in the Baltimore News is also very much to the point and I take the liberty of quoting it:

"The great objection to any guarantee project is that, on the face of it, it eliminates what has, throughout the history of banking, constituted the most distinctive and perhaps the most vital characteristic of the banking business—the peculiar necessity under which it lies of maintaining a reputation for care, prudence, foresight, sagacity, that no other business requires for its successful prosecution. Make all banks equally safe either by a government guarantee or by the guarantee furnished by a compulsory scheme of co-insurance of deposits, and it is plain that this distinctive requirement laid upon bankers in order that they may be able to command that confidence which is essential to success in their business is removed. The placing of reckless and speculative banks on the same level with the best managed and most conservative would tend to introduce a competition all along the line calculated to drag all of them down to the level of the least meritorious. The prohibition of rates of interest higher than two per cent. removes, in a measure, one form that this competition would take; but it does not remove it completely, nor does it touch other forms which are probably more dangerous than that presented by the offer of interest on deposits. Unless the banking business is to be reduced to a lifeless and purely mechanical function by the introduction of a minute supervision of the details of its operation under a system of cast-iron rules,

competition will be bound to exist in it in some form. Under the present state of things, that competition takes shape in two diametrically opposite sets of qualities, one set tending to increase the bank's business through the offering of inducements and the taking of speculative risks, and the other set looking to increase of business through superlatively capable, shrewd, sagacious and responsible management. The balance between these two has made the banking business what it is—and its record is magnificent. The very argument on which the proposed guarantee method rests is the almost infinitesimal percentage of loss that has actually been experienced by depositors in national banks. To get rid of the uncertainty that is at times caused by the existence of even this infinitestimal percentage of recorded losses would be, in itself, a great advantage; but the question is whether it would not gradually but steadily sap the vitality of the whole system, and land us in the end in a far worse condition than any we have known."

Let me further quote from a recognized authority on such subjects, Professor J. Laurence Laughlin, head of the department of Political Economy in the University of Chicago. Dealing with the socialistic feature of the proposition he says:

"There is no more justice in laying the depositor's losses, for which he is not responsible, upon others who are also not responsible for the losses, than there would be for A, who had been robbed by B, to ask that his honest neighbor, C, should be robbed to make up his loss. No matter how confidingly A had trusted B, C is not responsible for A's voluntary acts. Similarly, the honest and efficient banks cannot in justice be asked to make up to a depositor in a failed bank losses for which the honest and efficient banks have no responsibility whatever. All reason, all justice, demand that the punishment be inflicted on the doer of the wrong and not on the innocent neighbor. In fact, the ethical justification for taxing sound banks to cover the lapses of unsound banks has no existence whatever. It is unmoral. Moreover, it is a question whether the courts would enforce such a law against the rights of prop-

erty. More than that, it is not supported by any theory of political experience, but the socialistic. The advocates of insurance deplore the suggestion that it is socialistic, and are as much horrified by the mention of socialism as the devil is by the sight of the cross; and yet what does the analysis show? It is not necessary to explain to intelligent readers that socialism is not opposed to individualism; socialists look to the State to do for them what they admit they cannot do for themselves under a system of free competition. They charge against the forms of society what is due to the deficiencies of human nature, assuming that a change in the forms of society will change elemental human nature. The failure to hold their own in the struggle of life is the incentive to socialistic thinking. Disagreeable as it may sound, in reality socialism is the philosophy of failure. To be asked to be relieved from the ill success, or risk, of one's own business ventures is of the very essence of socialism. When human nature has changed its spots, and can be trusted to go straight without existing incentives, then we may begin to remove the dread of loss from those who make mistakes without expecting a depreciation of human fibre. It is only because men must look out for themselves that they differ in business fibre from women and children who are separated from the world of competitive effort. One may admit all the distress arising from the inability of the depositor to draw his deposits in cash; and yet one would not, as a consequence, need to demand insurance against every emergency in which misery may arise from the hazards of business. The essential idea in the scheme for guaranteeing deposits in commercial banks is to relieve a man from responsibility for using bad business judgment; and it is based on the principle of freeing men from the results of all business engagements in which there may be a risk of loss. If we once begin on this principle, we must care for all those who have entered into the relation of creditor to another. The scheme is the product of a narrow mind which has seen only one superficial phase of the problem, and which has hurried to a gen

eral conclusion without having studied the wide-reaching effects of an enervating and impractical policy."

Let me still further quote from a Canadian banking authority of lifelong experience. He wrote me lately on the subject as follows:

"The proposal hits at the roots of all morals in the matter of credit, because an effort to make by law the credit of one banking unit as great as that of another, and thus to counteract the essential principles which cause one banking unit to have good credit and another bad credit, is as mischievous as it is absurd. If such a thing were attempted, all the units which by their upright behavior have created for themselves good credit would have to retire from business or else submit to a scheme of cooperation which would give without consideration to other units who have been unable to create credit for themselves a share of one of the most valuable assets in banking. Men cooperate for mutual advantage, but when cooperation is enforced by law for the benefit of some and to the loss of others socialism in that particular matter has been achieved. . . . Again, is it not clear that the tendency of such a law would be to cause banks to distribute their surplus profits? What would be the object of any bank accumulating surplus profits if the credit of all banks is to be alike, and how absurd it would be for shareholders to allow reserve profits to remain undistributed if they were subject to attack in order to pay the losses of other dishonestly managed banks."

1. "It will prevent losses and hardship to depositors."

It could only at best do this to the extent of one twenty-sixth of one per cent. per annum of the amount involved which as shown by the experience of the past forty-two years has been the percentage of loss. This, however, would be at the expense of the sound and conservatively managed banks, many of which would themselves be creditors of the failed banks, while they would not be responsible for the failures nor for the losses to depositors caused by them. They should not, therefore, in justice and equity, be taxed to pay for them.

2. *"It will promote sound banking."*

The way to promote sound banking is to establish sound prinicples in our banking system and methods; to encourage honesty and conservatism in bank management and to discourage the reverse; to recognize honesty, ability, experience and training where they exist; and to reward such bankers as have these virtues with the preeminence which is their due and with the confidence to which they are entitled. These qualities in bank management are fundamental to the promotion of sound banking. What is there that will tend to promote sound banking in the proposal to make the bank of ample responsibility and with honest, capable, shrewd and sagacious management no better in the estimation of the public than the one having inadequate responsibility and dishonest and incapable management? Is it not reasonable to assume that it would have the very reverse effect, and tend to reduce all to the level of the least meritorious?

3. *"It will reduce the number and seriousness of bank failures."*

I have already admitted that it might reduce losses to depositors, and by the same imposition on the good banks it might to the same extent reduce the serious effects of bank failures, which is only another way of stating the same thing. I fail, however, to see how it would tend to reduce the number of them. If, as I have claimed, it would encourage the unprincipled and incompetent to enter the banking business, recognizing that the guaranty fund would make all banks equal in public estimation, it would lower the standard of bank management and of bank assets; and deterioration in these would mean more and worse failures, not fewer or less serious.

4. *"It will eliminate failures of sound banks forced by runs."*

This is quite unnecessary. I have been about forty years in the business and I cannot recall a single case of the failure of a sound bank that could be attributed to an unwarranted run on it by depositors. I have known of runs on sound banks caused

by idle rumor or misinformation, but in every case their soundness has either been established to the satisfaction of depositors, or other banks have rendered the assistance necessary to prevent failure. The tendency in banking is entirely the reverse. So ready are banks generally to go to the assistance of others in distress and to prevent failure, if possible, that they will do so in cases where the term "sound" would be far from describing actual conditions. I believe that no bank honestly managed, pursuing a proper policy and correct methods—and surely none other can be designated sound—need ever be forced to fail by a run of its depositors. Examination by a government examiner, Clearing House Committee, or other competent authority, if it be really sound, would promptly reestablish confidence among its depositors. Moreover, if sound it would always have in addition to its regular cash reserves ample available and convertible assets on which to realize or to borrow.

5. *"It will protect assets of failed banks against forced sacrifice."*

Unless it is intended to pay the deposits of failed banks out of the guaranty fund immediately after their failure—and surely such a proposition is too evidently impracticable and preposterous for serious consideration—I cannot see how it would have any influence on the liquidation of their assets. Were deposits to be so paid, it would tend, I should think, to rapidity of liquidation for the maintenance of the fund and therefore to enforced sacrifice of assets. Otherwise liquidation would proceed under the same law, the same authority and therefore under the same methods as now pertain.

6. *"It will quicken competition in the banking world."*

Yes, and I would be sorry for the banking world, for the kind and quality of the competition that would be induced and encouraged by it would be that of the dishonest, the ignorant and the incompetent. These classes of bankers being able to offer to their customers as security for their deposits, the guaranty fund, maintained at the expense of all the other banks,

would certainly quicken competition, but of a most undesirable kind. The field would just suit a dishonest man, enabling him to mislead and hoodwink the public and to carry on his nefarious methods for his own aggrandizement. But do we want such competition and would it be wise to encourage it? I think not. Then, let us have nothing in our banking laws for the encouragement and support of rascals in the business.

7. *"It will raise all State and National banks to the same high level."*

This implies that State banks would either be included under the Federal law, or that similar laws would have to be passed by each State for its own banks. State banks could not, as I understand it, be included under a Federal law. Different laws regulating the matter would therefore have to be passed in each State which would produce "confusion worse confounded" for scarcely two of them would be alike. However this may be, it would only be in the artificially created estimation of the public that all banks would be on the same level. The convertibility of assets and the quality of management form the true measure of the standing and strength of all banks, and these would not be raised to a higher level, but would be reduced to a lower. No chain is stronger than its weakest link, and banks bound together under the proposed guaranty system would not all be lifted to the plane of the highest, but they would all be reduced to a mediocre average.

8. *It will justify governmental patronage of banks by rendering it effective for protection, which it is not now."*

Mr. Revell does not make his meaning quite clear to me here and I am not sure that I catch his point. I presume, however, he means that were such a guaranty fund as he proposes established and were government deposits protected under it, the government would be justified in trusting the banks without requiring from them, as it does now, a pledge of its own bonds as security for its deposits. If this is what he means, I agree with him. It does seem to me, however, that it should be pos-

sible to devise in this country a banking system, under which the government, having direct supervision of the banks, would be able to trust each of them as it may select for depositaries without special security or mutual guaranty. The ethical question could, however, be raised and urged with absolute justice and great force of argument as to why the banks not enjoying governmental patronage should be taxed to guarantee the government's deposits with those that do. But it is not necessary to provide such a guaranty for the protection of the government. As between the national banks and the government, it has always been well able to look out for itself. The government's requirement of a pledge of its own bonds as security for its deposits in banks creates a special use and market for them at a price which they would not otherwise command. In the government's case therefore it pays to be distrustful of the banks.

9. *"It will insure continuance of public confidence and thereby prevent panics—a service of incalculable benefit to commerce and to every member of the population."*

This would be true were it possible for the guaranty fund to give assurance to the public that under any and all circumstances and at all times each bank would be ready to pay its depositors promptly on demand. But this it cannot do. It can only provide that in the event of a bank's failing to pay its depositors promptly on demand whatever ultimate deficiency may develop in the process of liquidation would be made good. In a collapse of credit, produced by over-expansion of business, such a fund could not supply the banks with the wherewithal to pay their deposits over their counters or through the Clearing Houses. Financial crises are not due merely to the public state of mind which leads to runs on banks. Such a state of mind spreads the conflagration after the fire has been started; but lack of confidence and bank runs are consequences, not causes of bad conditions. Financial catastrophes are the results of periods of extravagance, overtrading, inflation of values, and undue expansion of credit.

These conditions develop periodically and then the failure of some big banking or other concern or some other untoward circumstance vividly attracts public attention to existing conditions, and panic ensues. Frightened depositors then want their money and they want it promptly on demand. Under such circumstances it would be as illogical as futile to refuse a depositor his money and tell him not to worry because ultimately he would be paid in full out of the guaranty fund. His natural answer would be that he is not worrying as to how he is to be paid after the bank fails, that he needs his money now, that the bank is open for business and that he wants it before it closes its doors. The trouble is, and he would realize it, that the bank has to fail before recourse can be had to the guaranty fund. Such a proposition would not enable a going bank to settle with its customers. If a depositor cannot get his money out of a bank when he asks for it just then he becomes panic-stricken and most anxious to have it in his own possession. The fact that he will ultimately collect it in full, with the knowledge that the bank must fail before the process of collection commences, would neither serve his purpose nor inspire him with confidence to leave it. The guaranty fund would not, therefore, insure continuance of public confidence, prevent panics, nor be of the incalculable benefit to commerce that is claimed.

The next three benefits mentioned are as follows:

10. *"In addition to preventing withdrawals by runs on banks, it will add, it is estimated, almost a billion dollars of money, now hoarded (in and out of banks), to our circulating medium, and eliminate the need for more or less doubtful financial legislation."*
11. *"It will, in this and other ways, materially increase the volume and profits of business."*
12. *"It will directly and greatly increase the business and profits of bankers."*

The two last named being contingent on the one preceding them, we can deal with these three alleged benefits together.

I do not know who is authority for the billion dollar estimate of the money now being hoarded. It is, however, only equivalent to saying that there is a large amount of money being hoarded. The billion dollars must be treated as a figure of speech and not as a reliable estimate of the actual amount in hiding for there are neither statistics nor other data on which any one could base such an estimate. We are, therefore, in the air as to the amount that might be added to our circulating medium and as to its effect on the volume and profits of general business. As to its directly and greatly increasing the business and profits of bankers, there seems to be some confusion in Mr. Revell's premises. He says that money is now being hoarded "in and out of banks." This implies that the banks are hoarding money in excess of their legal reserve requirements despite a business demand for it. The only way banks can be accused of hoarding money is by refusing to lend it out when it is wanted. What inducement they would have under the guaranty of deposit system to loan out the money they are now accused of hoarding, I cannot imagine, unless it be that they might fell warranted in expanding loans, in being more speculative, and in assuming greater risks, relying on their depositors looking to the guaranty fund as the main source of their strength, instead of relying, as they must now do, for the maintenance of their credit on their cash reserves and the liquid character of their resources. This would be natural under the circumstances, and it only affords another indication of the evil tendencies of the proposition on bank management. As to its eliminating the need for "more or less doubtful financial legislation," the query naturally arises why such legislation need be "more or less doubtful" unless it is to be determined by theorists, agitators and others having no knowledge or experience in banking and financial matters, who persist in stirring up the minds of the people with their vagaries and their unwise and unsound suggestions. Every scientific and successful banking system in the world today has been established after full investigation and deliberate

consideration by those whose knowledge and training and experience have made them financial experts. Nor can we hope to have a wise determination of the needs of our banking and currency system until it is left to similar expert authority.

Insuring Bank Deposits. Andrew J. Frame. Address Cincinnati Bankers Club. Feb. 8, 1908.

Again, I wonder if the bankers of the country have given a second thought as to what it means for each bank to take from its assets 1 per cent. of its deposits, as the Oklahoma law or the Davidson bill in Congress requires, as a guarantee fund and as an endorsement of every other bank's liabilities, big and little, in New York or Arizona, whether conservatively or recklessly managed? Let us diagnose the case a little further.

If we apply the Oklahoma or the Davidson bill to all the banks in Wisconsin, both national and state, the banks in Milwaukee alone will have to deposit into the insurance fund

about	$600,000
The country banks	$1,900,000
All the banks in the state about	$2,500,000

If this fund is in cash, does the bank paying it in lose the income from it, and if in securities, will they get over 3 per cent. interest on it? $2,500,000 would not go far toward liquidating $16,000,000 of liabilities of the First National Bank of Milwaukee in 1905, which as certain as fate would have suspended because of deception in its management which even the watchful eye of the examiners had not prevented, were it not for the fact that manly men pledged their fortunes to prevent it. If that bank had suspended the banks of Wisconsin would have had a shakeup that no state bank insurance could allay. The 1841 experience in New York would have been repeated in Wisconsin, under conditions clearly violating the rigid National Bank Act, under which the deceptions were practiced.

In 1896 the National Bank of Illinois in Chicago failed for a sum approximating $22,000,000. In 1905 the Chicago National Bank for over $20,000,000, both under deceptive acts in spite of rigid supervision.

A state deposit fund from all the banks in the whole state of Illinois on those dates would have paid but a fraction of the liabilities of those banks.

The failure of the Fidelity National Bank of Cincinnati in 1887, under the deceptive violation of the Bank Act, would have proved a like fate for Ohio.

I could site similar parallels in the great cities of Montana, California, Colorado, Missouri, Kansas, Arkansas, Louisiana, Virginia, Massachusetts, Pennsylvania, and last but not least, New York City, where under failures in the past three months, aggregating over $125,000,000, the world received a jar that history will not fail to record. Is there rhyme or reason in compelling the country banks to stand for losses under pyramid banking and high finance in the great cities?

If insurance failed in 1841 to keep banks from destruction, why will it succeed in these latter days? "He who will not profit by the experience of the past gets knowledge when trouble overtakes him."

The Davidson bill in Congress, if passed, will take from the National Banks 1 per cent. of their total deposits, or about $60,000,000. This means approximately 7 per cent. of the total capital of the banks. What is to be done with it—keep it in cash or invest it in 2 per cent. United States or high-class state, county or municipal bonds? If invested in bonds, and large failures occur under panic conditions, how will they be turned quickly into cash to pay off the depositors?

If deposited in banks, can favoritism be avoided, and would not the call for cash to liquidate large failures withdraw from reserves and aggravate troubles? If 1 per cent. of all the deposits in the banks of the United States was held in cash to-day it would require every dollar of it to liquidate the deposits in suspended banks. New York City alone would require $94,000,000.

It is a fine theory, but will it work?

If each banker would figure out what a hole 1 per cent. of deposits will make in his bank's capital; how much his bank will experience in loss of income on the transaction; how much he will be helping to back up the high financiers under failures such as I have enumerated; the sober, thoughtful banker will think twice before he leaps. Further, to my mind the statesman who would compel any bank to help pay the losses of any other bank in his own or any other state, would put upon the statute books a law that could be fairly characterized as legalized robbery. Its constitutionality can seriously be doubted.

Such a law is not to be compared to fire insurance, because that is purely voluntary on the part of both. The insurance company knows to a mathematical certainty the probable losses by fire under the varied but normal conditions, eliminating as far as possible the moral hazard which is always considered. Even in this the great fires of Chicago, Boston, Baltimore and Frisco—which might be likened to panics compared to the subject under discussion—upset the average loss theory and many bankrupt companies resulted.

In case of deposit insurance, the moral hazard, the incompetent hazard and the high financier hazard have not, nor can they be eliminated wholly, as has been proved, altho the banks were under careful supervision and control under the Safety Fund system as well as under ours of the present day.

These extraordinary risks undoubtedly have prevented expert insurance men from entering the whole field as proposed. The Kansas Legislature lately showed its good sense in leaving the matter to be settled between the insurance companies and the banks in their individual capacities.

The New York Bank Commissioners said, "Because of the popularity and supposed safety of the system, the number of applications for new acts of incorporation far exceeded any prudent calculation of profitable investment." Is human nature any different to-day than then? Will not insured

banks multiply so fast as to disorganize the whole business? Will not promoters induce gullible people (and the woods are full of them) to put up necessary capital, because there was "millions of it?" And competition itself, regardless of the present pirates—who, like the poor, are always with us—would vastly increase the fierce competition for business, by selling exchange for nothing, bribing customers in a hundred ways in order to increase their business; forcing every bank to pay 3 per cent. or upwards on open accounts, certificates of deposit, etc., or lose their deposits, because the insurance clause would appear to make the promoted as safe as the conservative bank.

The promoter's bank would pay higher rates for deposits, because it would also loan at higher rates on shady collaterals, whereas the conservative banker would turn down such loans absolutely. Thus the conservative banker would lose his business and at the same time be compelled to endorse his competitor's recklessness.

Again, with loans at the ordinary average rates for many years, it is impossible for commercial banks to pay 3 per cent. on total deposits and live. National banks do not now average 2 per cent. paid on total deposits. If they paid 3 per cent. all dividends would be wiped out, for this difference would mean a loss of 1 per cent. to 1 1-2 per cent. on a total of over 6,000 millions of dollars of deposits.

This small margin approximates their average annual net profits.

Under the insurance plan the innocent depositor would not use any discretion as to the integrity and ability of the bankers with whom he deposited his money, until he realized to his sorrow, his error when a panic struck the country and his losses would be compounded in consequence.

All history proves that rigid laws regulating human conduct do not bring perfection. Banks under good laws sometimes fail, because their managers cannot be called to account until they have done something radically wrong. Endorse the pro-

moter and he will be optimistically swimming beyond conservative depths continually. Theoretically you can weed such promoters out, but practically you can do so only after serious damage is done.

Listen to another bit of history, which might be termed "insuring deposits," to-wit:

THE AUSTRALIAN BRANCH BANKING SYSTEM.

The Am. Encyclopedia for 1893 says, "That out of 28 banks with 1,700 branches, 13 of them with 800 or 900 branches failed in six months ending May, 1893, for the stupendous sum of £90,000,000." When we consider that the banking power of Australia was then but one-sixth that of the United States we can begin to realize the colossal calamities that endorsing one for another, as is done under the branch banking system leads to at times.

These facts disprove the absurd theory that Insurance will prevent panics.

High ideals are certainly commendable, but perfection is impossible. "Man that is born of woman is of few days and full of trouble." As far as safety to depositors is concerned, the National banking system is the highest ideal as compared with that of any progressive nation on earth. To raise this standard still higher, all should take to heart the eminently sound suggestion of Comptroller Ridgely in a late report to Congress, wherein he says, "I am convinced by experience that with careful and efficient work on the part of the examiner, aided by intelligent and thorough letters of criticism based on the examiners' reports, any board of bank directors of fair intelligence with an honest desire to obey the law, can, by cooperating with the examiner and the controller, make the failure of their bank practically, if not absolutely, impossible."

Apply the National Currency Act to the state, savings and private banks and also to trust companies, applying regulations consistent with differences of conditions and methods of operating, and losses will be eliminated as far as it is prac-

ticable for human ingenuity to accomplish it, and without doing violence to the conservative banker by compelling him to endorse for the non-conservative under a compulsory law. Such a law in effect is pure socialism, and every thoughtful statesman should be careful not to start this great country down grade under that regime, which generally results in anarchy.

I have no doubt the advocates of the plan have done so with the intent to subserve the highest interests of the general warfare, but I am firmly convinced that the plan is impracticable, outrageously unjust in its operation, and would work a general revolution in city and country alike. Conservatives would flee for safety and the reckless would soon land us on the shoals of financial distress. After mature deliberation, with historical failures to enlighten our pathway, can we afford to try the experiment? I think not.

OKLAHOMA TIMES.

A postal savings bank, backed by the United States government, guaranteeing depositors their money in case of bank failure, is the only genuine solution of the Depositors' Guaranty Law. The present depositors' guaranty will go so far and no farther. There are eighteen million dollars deposited in state banks of Oklahoma. The assessment paid into the depositors' guaranty fund amounts to $180,000. Supposing ten banks in Oklahoma would fail, with deposits aggregating a million dollars, where would the depositors' fund be? Do you suppose the state banks of the state would pay? Never. The depositors' guaranty fund is all right so far as it goes, but it is intended for small country banks, and could never be made practical as a national law, or with banks where the deposits run over $100,000. It is merely a premium on dishonest and wildcat banking, and the people will find it out if there ever comes a panic. You remember last fall, when the panic came, and no money could be had in the United States? The bankers' guaranty fund is deposited somewhere, isn't it? Where,

no one knows. But if all the banks were closed, how could the state get their $180,000 out of one bank to pay the depositors in another any more than you could draw money out of a bank last fall, or a local bank get money from Kansas City, Chicago, or St. Louis? Reason this matter a little, and you will find the depositors' guaranty law is a myth in a real crisis.

A postal savings bank, wherein the United States government places a savings bank in every postoffice in the United States, and gives the depositor a guaranty, backed by the United States government is the only reliable depositors' guaranty that can be had, and that is the sort of a depositors' guaranty that the Republican party pledges to give you.

"Yes, you are right. I will never believe anything else but that my bank was closed by Bank Examiner Smock on telephone orders from Gov. Haskell, for no other purpose than to make a demonstration of the depositors' guaranty law for the Democratic convention at Denver," said Dr. L. A. Conner, of Coalgate, who was president of the International Bank at that place, and which was closed by Bank Examiner Smock, and the depositors paid by the state.

Dr. Conner is spending a few days in Oklahoma City.

"Less than $500 of the depositors' fund was needed to pay off the depositors. There was over $17,000 in the bank at the time it was closed, and Receiver Schultz has made no attempt to collect in the outstanding notes. He has been there three months drawing $125 a month, which the directors of the bank will have to pay, and as $1,500 expenses will be against the bank, and not a dollar of it was necessary. The overdrafts in the bank were for cotton and stock, and were of the same character that is held by every bank in the state.

"I took out a certificate of guaranty for my bank because I thought it a good thing, but before proceeding to the discussion of the subject, I wish to correct an erroneous impression that has gained almost, if not quite, universal belief, that the state as a commonwealth, guarantees deposits in state banks.

Nothing however could be farther from the real fact. The friends of our state banking system seem inclined to allow this impression to go unchallenged and uncontradicted.

"Our banking law provides that a guarantee fund shall be provided for depositors in state banks operating under a state charter, by the collection, by the state, of an amount equal to one per cent of the deposits in such banks, to be used in reimbursing depositors in case of disaster to the bank. This is only an initial assessment made to start with, and no limit is placed upon the subsequent assessments that may be made in case the exigencies of the occasion may require. This fund is merely placed in the custody of the state treasurer, who deposits it in banks, together with other state funds. The state, it will be seen, is in no wise a guarantor—simply a custodian of the fund procured from an enforced mutual association consisting of the several state banks of the state.

"In fact the state shows its suspicion of the entire efficacy of the system by requiring, in addition to the guaranty features of its banking system, an indemnity bond from all state depositories in a sum twice the amount of its deposit. The conservative bankers of the state are at the present time wrestling with the problem, in view of the fact that there is no limit to future assessments to keep this fund intact. What might happen to them in case of a panic or widespread financial disturbance?

"In the light of recent developments, those familiar with the practical working of our banking law are becoming somewhat agitated over it.

"Only one failure has occurred in the state since the law became operative, and the friends of our banking system are attempting to make so much capital out of the affair, and allowing such grossly erroneous impressions to gain credence, is the main reason for my attempting to give the exact facts concerning the matter.

"The one instance where the law has had an opportunity to become operative, is in the case of the International Bank of Coalgate, and here are the dates, figures and statements

made in connection with this bank, taken from an official statement of the state banking department's man in charge of the affairs of the bank at the time of closing business on the 31st day of August, 1908.

"On the 15th day of February, 1908, the International Bank of Coalgate was granted a license to operate under the guarantee banking law of Oklahoma, upon the showing made in this statement," said Mr. Conner.

Here is a statement handed a Times reporter:

RESOURCES.

Loans	$45,460 50
Overdrafts	1,124 62
Banking house, furniture and fixtures	12,082 09
Other real estate	60 50
Due from Chase National Bank, New York	38 44
Due from Mechanics American National Bank of St. Louis	874 47
Due from State National Bank of Denison	998 38
Undivided profits (in red)	662 21
Short on over and short account	3 77
Expense in excess of profits	6,855 66
Cash and cash items	10,490 11
Total	$75,480 45

LIABILITIES.

Capital	$38,000 00
Surplus	2,900 00
Bills payable	3,000 00
Deposits individual	24,207 45
Certificates of deposits	7,373 00
Total	$75,480 45

Upon the 21st day of May, 1908, the state bank examiner closed the doors of the bank, and made the following statement of the conditions of the bank's affairs:

RESOURCES.

Loans	$44,855 67
Overdrafts	2,069 22
Banking house, furniture and fixtures	11,517 44
Other real estate	51 50
Due from Mechanics American National Bank of St. Louis	3,282 79
Due from State National Bank of Denison, Texas	4,242 80
Due from Chase National Bank, New York	38 44
Cash on hand	9,574 67
Cash items	579 69
Total	$76,210 22

LIABILITIES.

Capital	$38,000 00
Surplus	1,450 41
Over on over and short account	14 88
Deposits, individual	31,571 93
Certificates of deposits	5,173 00
Total	$76,210 22

"The said report of August 31, 1908, also shows that the banking department had collected on the item of overdrafts the sum of $815.86," said Dr. Conner. "Also, notes collected since May 22nd, $21,220.40; also, interest collected since May 22, 1908, $1,569.17, leaving notes on hand unpaid, August 31, 1908, $26,323.12.

"It will be noted that the condition of the bank, at the time its doors were closed, according to the above statements, show a much healthier condition when the doors were closed than when the guarantee license was issued three months previous. The question naturally arises, why should the bank be closed?

An illustration of the workings of the law was necessary for campaign purposes. The author of the law was sure that he would be in a position at Denver, to make his pet scheme a national issue in the presidential campaign now in progress, and he needed something to point to with pride.

This could only be accomplished by selecting a perfectly solvent institution to serve as an illustration, and the most available one, probably, in the state was selected.

Under the old management the bank was operated upon a monthly expense of $250. This, the state bank examiner said, was excessive. Yet under his management, during four months of liquidation the operating expenses has reached, according to the statement of August 31, 1908, now before the writer, the sum of $1,328.46. While the above facts and figures are self-explanatory to any reasonable man, a few suggestions may not be amiss. The cash on hand at the time of closing the bank and the amount collected by the state bank examiner, exceeds the total liabilities of the bank by $2,024.60, and still leaves due the bank notes collectible amounting to $26,323.12, which added to the banking house furniture and fixtures, leaves the bank with resources in excess of all liabilities, including its capital, of $1,916.66, and yet the bank is ruined. Its reputation is gone; its stockholders embarrassed; the stock diminished in value and financial disaster to reputable gentlemen produced, that a political asset might accrue in sections

where the true conditions were not known and were not likely to become known.

No sane or reasonable man will attack or attempt to discredit protection in banking circles, or business or manufacturing affairs. The depositors in our banks are entitled to every protection that it is possible to give them; but does the Oklahoma guarantee banking law protect?

Does the single illustration at hand prove that it is beneficial to the depositor? It does not require the genius of prophecy to forecast the result under our law in case of a panic or financial disturbance of any magnitude. Do not the facts and figures here produced from the official statements of the bank in question amply prove the wisdom of Mr. Taft's statements?

The best that can be said of the Oklahoma banking law is that it is only a pretty theory with no practical possiblities of natural benefit or security.

Viewed from whatever view point one wishes, familiarity with the working of the law, as administered by the treasurer of the national Democratic committee, the Oklahoma banking law is a dismal failure, a political machine, and entirely unworthy of the serious consideration or the slightest confidence. It is a proposition that no honest thinker can endorse.

GUARANTEEING SAVING DEPOSITS.

Some interesting facts are furnished the Department of Commerce and Labor by Consul Robert J. Thompson, of Hanover, showing how savings deposits in Germany are absolutely guaranteed by the municipalities. The following advertisements of two German banks are self-explanatory:

(1) Open on working days from 8:30 A. M. to 1 P. M. and from 3 to 6 P. M.; depositors guaranteed by the administration; interest on deposits 4 per cent; withdrawals on demand; safety vaults rented; faimly pass books issued.

(2) Open every working day from 9 to 12 A. M. and from 3 to 5 P. M.; also on Saturdays, as well as on the first and last

working days of the month, until 6 P. M.; savings deposits guaranteed by the city of Hanover; interest 3½ per cent. For deposits made on the first five working days of the month interest is allowed from the first day of the month; in other cases interest begins on the first of the following month. On deposits recalled on the last working day of the month interest is allowed for the month. As a rule deposits may be withdrawn without term of notice. In addition to the ordinary savings bank pass books, books for wards, as well as time de- safely vaults rented; family pass books issued.

The assessed property valuation stands behind all German savings banks. If a bank is looted or if it fails so that it can not meet its obligations, the shortage is made up from the municipal treasury. If there is not enough funds on hands to meet the deficiency a special tax is laid. Thus a savings deposit has the same guarantee that a municipal bond has.

In view of the agitation in this country for government guarantee of certain classes of deposits these facts are quite interesting. The howl of socialism would go up probably if it were suggested that the German plan be adopted in this country while taxpayers would fear an increase in taxation. It is significant, however, that the records of Germany show but one case of defalcation in a savings bank and but one occasion when it was necessary to raise funds by special tax. The citizens generally watch their bankers more closely in Germany than they do here, and the opportunities for mismanagement are few.

It must not be supposed that the cities of Germany get no return for standing sponsors for the s[illegible] banks. The profits after the creation of a reserve fund a[illegible] to ten per cent of the deposits are paid to the city [illegible] charities and corrections and for beautifying the city streets, squares and parks. Four per cent interest is paid on deposits.

CHICAGO NEWS.

Though German industry occasionally suffers from the paralysis of business depression, the nerve-racking fear of

panic, no less than panic itself, with closed banks and lost savings, both so well known in this country, is spared the German savings-bank depositor, according to a cheerful presentation of the matter made by Robert J. Thompson, United States consul at Hanover.

Consul Thompson says that the savings banks of Germany have about 19,000,000 depositors, with savings amounting to $3,213,000,000. He adds: "These deposits are practically all guaranteed by the various municipalities of the empire and the condition forms a bulwark of confidence in the security of private wealth that cannot be shaken by hard times, panics and bank failures." With the taxing power of the municipalities behind the guaranties, says Consul Thompson, the deposits are put, so far as security goes, "on the same basis as a city or county bond, which is perhaps as good a guaranty as has been devised. At any rate, the thrifty German considers himself well secured."

Bankruptcy or failure of these institutions is extremely rare. Mr. Thompson knows of only one instance—a bank looted and the defalcation at once made good by a special tax. Indeed, the director of the Hanover City Savings bank says, "Failures of city savings banks are now impossible."

The profits of the two municipal savings banks of Hanover, after the creation of a reserve fund amounting to 10 per cent of the deposits, go to the city and are used for charities and corrections and for beautifying the city streets, squares and parks.

But German cities, as did those of the ancient Hanseatic league, have rather a stronger individuality than the cities of this country [illegible] widespread sentiment throughout the United [illegible] in favor of postal savings banks must bring [illegible]ence soon, giving to the American depositor of small savings the good results of the German system and some others in addition.

PITTSBURGH, PA., DISPATCH.

Columbus, Ohio, May 26.—With one exception an entire new board of trustees will administer the insurance department of the Brotherhood of Locomotive Engineers. The new board was completed today by the election of W. T. Christy, Algiers, La., and L. F. Freener, Fond du Lac, Wis. J. H. Welch of Atlanta, Ga., w[illegible], the only one of the old members to hold over. The insurance department after a narrow escape from losing $360,000 on deposits with a Cleveland bank which failed instructed the trustees to insure all bank deposits with bonding companies. Harrisburg, Pa., and Buffalo, N. Y., are contesting for the next convention. The convention determined to adjourn on Memorial Day.

The grand international auxiliary, Brotherhood of Locomotive Engineers, has selected the following officers: Mrs. J. Dowling of St. Thomas, Ont., grand sentinel; Mrs. Harry Murray of San Luis Potosi, Mexico, grand guide.

resentatives. March 18, 1908.

Safety of Bank Deposits. Hon. Rufus Hardy. House of Rep-

Every man must learn to stand alone, to make his own contracts, meet his own wants; but there are many great things the individual can not do effectively. He can not build his own university, he can not carry his own mail, he can not build his own road to market, he can not provide his own standards of weights and measures, or his own coins and standards of value well, though men have in a measure done all these things. But another says it is socialism. It would be socialism if one bank was made to pay the debt of another for the benefit of the failing bank, but that is not the case. Each bank is made to join in payment of the debts of a failed bank for the good of all the banks that do not fail and for the good of the public. Each bank is given by the public a great privilege, and must therefore submit itself to all the restrictions and burdens imposed with the grant. It is not bound

to accept the grant. If you can adopt a hundred burdensome measures by which to make banks keep deposits secure, can not you add yet one more and impose a small tax? Is it socialism to make all the requirements now made of the banks to protect the public? Is not the safety of deposits a great public necessity as much so as a safe currency? As much so as coining the money? Ought not the people be given safety for their money on deposit equal to the old sock, the trunk, or the strong box, without the effect of the strong box in withdrawing it from circulation? Any measure that will prevent sudden and great disaster to the whole public such as came upon us lately should be studied long before it is cast aside. The public schools have some taint of socialism. I think far more than the proposition to assess banks for security of depositors. For a long time good men and true opposed them because they taxed you to school my child, and you have no option but to be taxed. The reasoning looks sound, but a great and overwhelming cry arose. Humanity cried out for the poor in appeal to our charity, but a higher authority appealed to the lawmaker and for the protection of the public against the vice and crime of the ignorant. The rich are required to pay for the poor, not as charity, but for public and self-protection. A great necessity is upon us. Governments that adopt the central and branch banking system as we once did are not in this trouble, because all their banks are jointly liable. A central bank system is a system that assesses all banks to pay any failure, but we can not and would not adopt that, because we fear, and justly fear, its power; but the necessity for safety is with us as it is with France, Germany, and England. Over one-third of the great mass of bills introduced bear testimony to that fact, and, containing a guaranty plan, show that the people know their needs.

Even the distinguished gentleman, Mr. Hill of Connecticut, declares the guaranty proposition of Mr. Williams by voluntary acceptance could be had, but he says the banks will not accept it. I say they will. Let us pass that law. If they do

not accept it no harm is done. The law is a dead letter. If they do accept, the law is good. The gentleman says no man can give a reason why banks more than life insurance companies should mutually insure each other's policies, but he is mistaken. Life-insurance companies are not bound together. The failure of one does not affect them all, and if there were no life-insurance companies, commerce would still prosper and maybe so equally well. Banks are a vast interdependent system, willing or unwilling. But in times of panic now, as he says, each pulls apart and strives to save itself, but if they had mutual guaranty they would pull together, as they sometimes do even now when they think deeply and wisely. He tells of rich men now getting control of a chain of banks and riding them at their will unrestrained. It could not be done if all banks were linked together under proper laws. Governor Hughes has proposed additional limitations on banks loaning to each other's officers. On all sides come suggestions to make more safe the banking system and the bank depositors. Once for all, it should be accepted that banking as well as currency is a public or quasi public function and sate banks a public necessity. We have reached a point where the very public safety demands that the Government, in the interest of the whole people, see to it that the "state," the people, "take no harm." In the vast intricacies of commercial life depositors are hardly volunteer creditors. Deposits can scarcely be avoided, or if they could all business would be blocked; and yet in panic in the great city of New York one bank was as safe or unsafe as another. But why guarantee the depositors against the banks and not the bank against the depositor, says the gentleman. Surely the gentleman has thrown dust in his own eyes by his logical pyrotechnics. Why, sir, did the Government impose double liability? Why try in other ways to protect deposits? The bank loans on security, deliberately, voluntarily, and for a profit to one who has no duty to perform to the bank or to the public. No Government protection or inspector is needed or desired by the banks to aid or pro-

tect them in their loans. All Government restrictions on bank loans are made to protect the bank's creditor. Then with my earnest and able colleague from Texas [Mr. BURGESS] he strikes the wildest note of all when he says, first, that safety of deposits is very desirable, and next that guaranty of depositors or guaranty of deposits would promote an era of wild and unsafe banking.

Surely the depositor being guaranteed, the banker would feel no less desirous of protecting his own interest, and other bankers being likewise interested would be no less observant of their brother banker's conduct. The gentleman from Connecticut wants the United States to deposit its money but take security. Why? Because he wants Government money safe. As for me I had rather secure the savings and pennies of the poor than the surplus millions of the United States. How is it everyone wants to make United States deposits secure but not the common depositor? Is it simply because the Government is big enough and strong enough to demand it and the people can not help themselves? My colleague, Mr. BURGESS, has made a speech on this subject well worth perusal. Like so many others he falls into the use of the Shiboleth, "emergency currency," some currency that will come when the crops ripen and go away when they are sold; and they seem to want this issued by the Government direct *to banks* or by the Government *through the banks* on a special deposit of security. Most advocates of the emergency currency have convinced themselves at least that every fall for the last ten years before the panic the country was on the verge of panic and escaped by a miracle, and that without their emergency currency we will verge some more every fall, and only escape by a miracle every fall until we do provide it. Now, I do not believe at all in this recurring miracle. I do not believe there was any more approach to a panic in the fall of 1900, 1901, 1902, 1903, 1904, and 1905, than there was of failure of the Bank of France. In 1906 there were clouds but they did not hover over any question kin to emergency currency. All

during the spring of 1907 the clouds grew darker, and the East was borrowing from South and West. We had, or the banks had, the power to issue several hundred millions of currency of the kind these gentlemen urge—that is, secured currency, but it would not "emerge." It did not emerge when it was needed, nor would the Aldrich currency. I know it is considered, or said to be not decorum to speak of measures in the other branch, but I see no sense in that decorum. The wise men have told us that our present bank currency has a habit of emerging in the summer and retiring in the fall when the crop-moving banks call for it, and so Mr. BURGESS wants a commission to tell what is the matter. He is right this far. If we do not know anything we ought to do, appoint a commission, and they will do nothing and take a long time about it, and we can tell the people we have done something, and the people must wait. The commission of Mr. BURGESS is to gather up a mess of opinions and theories, such as we all have received in our mail, and will argue from many sides learnedly and long, as bankers have in conventions, but discover no essential fact not now known, and when this stress is over for the time the people will forget the commission.

It is only better than the Aldrich bill because it does nothing, no harm. It leaves the patient to live over his present attack by his natural strength, and does not weaken his system by the injection of more poison to make him less able to stand another attack. The high statesmanship of Messrs. BURGESS and HILL reaches the lofty conclusion that neither they, we, nor anyone else now know anything of the causes of this panic upon which to suggest any remedy. They father a school of silent wisdom that reminds one of the doctor who feels your pulse, looks wise, gives a bread pill, and tells you you have "periodical membratonitis" and slight "congestive emergiensis," and must wait further developments of the disease, in order to name it more specifically if you do not get well from the bread pill.

But further on, after urging a commission to tell us what to

do, my colleague gets certain that we can do nothing; that we can not legislate values and credits and public confidence, nor do anything of good, but much of ill. Then why the commission? We have plenty of money, they say, and so do I. It is hoarded they say, and so do I, through fear of bank depositors, they say, and so do I. We can do nothing they say, and so do *not* I. We can pass laws that will make deposits safe and remove that fear. It took one panic to produce the law of specie resumption. It took another to bring about safe, sound currency, and it will take only one, I trust, to bring about a safe deposit and sound banking system. But if we do nothing now, we will do nothing later till a second panic compels it. I want to sum up, if I can, the various reasons againts deposit guaranty. It is foolish, says my colleague, and doubtless he thinks so; but Mr. Bryan, Mr. Gage, Mr. FOWLER, Mr. WILLIAMS, Mr. CULBERSON, and the oldest, perhaps the best, at least the wealthiest banker of my town, and one of the best bankers of the town just south of me, and thousands of others think not. Let us let that be a stand off. But it would put in hodgepodge capacity and character with incompetency and rascality and lay a tax on all to protect the negligent depositor and rascally banker at the expense of the wise banker and careful depositor. I have partly answered this already. It is the cry of "paternalism," "socialism," made by the big and strong bank. It is the Gibraltar of the opposition to safe banking, sir. You do not throw capacity and incapacity into hodgepodge and tax both to support both. You bestow a privilege at a price. I maintain that 99 per cent of all deposits in commercial banks are involuntary, or placed without being influenced by question of safety in normal times. When high interest is offered by banks the depositor does and well may consider safety, but in all my life I never questioned the safety of any bank in my home town, yet deposited with only one. No bank depends alone or even largely on its safety in normal times to build up its business; they depend on friendship and business relations. That claim is hollow.

In normal times 99 per cent of all banks are safe, and those that are not are as apt as not to be some old and trusted institution. Of the three biggest failures I recall in my State, two were old and trusted, one was new; all stood on their character and competency, without the paternal and socialistic inspection, regulation, or restriction.

I maintain that there is not a bank in existence that would not itself be more benefited by the safe guaranty of the deposits of all banks than it would be burdened by the tax, and these gentlemen must abandon their proposition or follow it to its logical end—free and unrestricted banking. They must stand for free bank notes, wild-cat bank notes, and deposits unprotected by reserve or double liability or other restrictions, or come with us to safe bank notes and safe-deposit obligations. The law says to every bank to-day, For the protection of all other banks and all the public you shall not give your note without making it secure (a great infraction of freedom), but you maf receive all the deposits you please and promise all you please to the certain individual without making him secure. The note, you say, of each bank is secured by that bank alone, while this proposes that all banks shall make each deposit sure. I grant it; but I charge that in the present method of securing the note you have tied up an equal or greater amount of the resources of the banks issuing, and the notes issued are not issued on principles of banking at all, but are in effect an issue of Government notes. You have destroyed all real bank-note issue, and I charge that no real bank-note issue was ever safely made except on terms amounting to mutual and joint guaranty by many banks, as in the case of all central and branch banks or Government banks. The truth is, and we know it, our present bank notes are guaranteed by the Government, are Government notes. The Government devised a plan to make itself safe on these and prohibited all other. And all issuing banks jointly bear the expense of the system, whether they need inspection and restriction or not. Some are honest and capable and some are

not, but all pay this expense and bear these restrictions and burdens, and this is what is proposed in the guaranty of deposits. "But," says my colleague, "it is the inalienable right of every individual in this country to get all the premium that character and capacity give him * * * and if he goes into the banking business he is a candidate for deposits." Why, then, do you forbid a solvent bank to issue its promise to bearer on his character? The truth is, commercial banks should no more be allowed to receive deposits, without condition, limitation, or security, than to issue notes, and the right to impose these restrictions, limitations, and conditions is as clear in one case as in the other. We recognize this truth partly, but not wholly, as we ought.

LATEST REPORT OF OKLAHOMA BANKS.

The Chicago Record-Herald of October 2, 1908, gives the official reports of the deposits in the banks of Oklahoma from Dec. 3, 1907, the date when the law went into effect, to July 15, 1908.

The reader will remember that the national bank deposits are not guaranteed under that law while the Record-Herald Correspondent adds the following information:

NATIONAL BANK DEPOSITS.

Dec. 3, 1907	$38,318,729
July 15, 1908	36,820,989
National banks lost	$1,497,740

STATE BANK DEPOSITS.

Dec. 3, 1907	$17,215,535
July 15, 1908	21,216,526
State banks increased	$4,000,991
Increase state banks December to July	$4,000,991
Decrease national banks Dec. to July	1,497,740
Net increase, both systems	$2,503,251

The decrease in national bank deposits during the seven months was practically a million and a half dollars. More

than four-fifths of this sum, however, is represented by state funds, which were withdrawn from the national banks because they could not or would not avail themselves of the guaranty system. Only about one-fifth of the million and a half of dollars, therefore, represents savings drawn out by individual depositors.

The increase for the state banks was, roughly, $4,000,000. During the period of the increase Oklahoma received from the outside $5,000,000, her portion of the school fund, which came to her when statehood was effected. The last of this sum was paid in July 1. Almost every cent of this sum was deposited in banks having the guarantee plan in operation, so that national banks did not profit.

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